GLADSTONE INVESTMENT CORPORATION\DE
Form 497
March 09, 2015
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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting offers to buy these securities in any state where such offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 9, 2015

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus dated September 4, 2014)

3,000,000 Shares

Common Stock

We are offering 3,000,000 shares of our common stock. We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. Our common stock is traded on The NASDAQ Global Select Market under the symbol GAIN. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains.

These shares are being offered at a discount from our most recently determined net asset value, or NAV, per share pursuant to authority granted for twelve months by our common stockholders at our annual meeting of stockholders held on August 7, 2014, and as subsequently approved by our Board of Directors. Our stockholders did not specify a maximum discount below NAV at which we are able to issue our common stock, although the number of shares sold in each offering may not exceed 25% of our outstanding common stock immediately prior to such sale. The last reported closing price of our common stock on March 6, 2015 was $7.72 per share. The NAV per share of our common stock at December 31, 2014 was $8.55. We have also calculated the NAV per share of our common stock at March 2, 2015 (the last date prior to the date of this prospectus supplement on which we determined NAV) and determined NAV per share to be $8.55. Sales of common stock at prices below NAV per share dilute the interest of existing stockholders, having the effect of reducing our NAV per share and may reduce our market price per share.

See Risk Factors beginning on page S-10 of this prospectus supplement and on page 12 of the accompanying prospectus and Sales of Common Stock Below Net Asset Value beginning on page S-17 of this prospectus supplement and page 71 of the accompanying prospectus.

The securities in which we invest generally would be rated below investment grade if they were rated by rating agencies. Below investment grade securities, which are often referred to as junk, have predominantly speculative characteristics with respect to the issuer s capacity to pay interest and repay principal. They may also be difficult to value and are illiquid.

Investing in our common stock involves a high degree of risk. You could lose some or all of your investment. You should carefully consider each of the factors described under Risk Factors beginning on page S-10 of this prospectus supplement and beginning on page 12 of the accompanying prospectus before you invest in the common stock.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our common stock. Please read it before you invest and retain it for future reference. Additional information about us, including our annual, quarterly and current reports, has been filed with the Securities and Exchange Commission or the SEC; and can be accessed at its website at www.sec.gov. This information is also available free of charge by calling us collect at (703) 287-5893 or on our corporate website located at http://www.gladstoneinvestment.com. You may also call us collect at this number to request other information. See Additional Information in the accompanying prospectus. **The SEC has not approved or disapproved these securities or passed upon the adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

	Per Share	Total(2)
Public offering price	$	$
Underwriting discounts and commissions (sales load)	$	$
Proceeds to Gladstone Investment Corporation, before expenses(1)	$	$

(1) Total expenses of the offering payable by us, excluding underwriting discounts and commissions, are estimated to be $240,000.
(2) We have granted the underwriters a 30-day option to purchase an additional 450,000 shares of common stock solely to cover over allotments, if any. If such option is exercised in full, the total underwriting discounts and commissions will be $, and the total proceeds, before expenses, to us would be $. See Underwriting on page S-54 of this prospectus supplement.

The underwriters are expected to deliver the shares on or about , 2015.

Joint Book-Running Managers

Janney Montgomery Scott

BB&T Capital Markets

Ladenburg Thalmann

Wunderlich Securities

Co-Managers

J.J.B. Hilliard, W.L. Lyons, LLC **Maxim Group LLC**

Prospectus Supplement dated , 2015

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement, together with the accompanying prospectus, sets forth the information that you should know before investing.

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

You may request a free copy of this prospectus supplement, the accompanying prospectus, our annual reports to stockholders, when available, and other information about us, and make stockholder inquiries by calling (866) 366-5745 or by writing to us at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, or from our website (http://www.GladstoneInvestment.com). The information contained in, or that can be accessed through, our website is not part of this prospectus supplement or the accompanying prospectus. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We also furnish to our stockholders annual reports, which include annual financial information that has been examined and reported on, with an opinion expressed, by our independent registered public accounting firm.

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

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

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

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PROSPECTUS SUPPLEMENT SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this prospectus supplement and in the accompanying prospectus prior to making an investment in our common stock, and especially the information set forth under the heading Risk Factors in this prospectus supplement and in the accompanying prospectus. In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the Company, we, us or our refers to Gladstone Investment Corporation; Adviser refers to Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; and Gladstone Companies refers to the Adviser and its affiliated companies. Unless otherwise stated, the information in this prospectus supplement and the accompanying prospectus does not take into account the possible exercise by the underwriters of their overallotment option.

Gladstone Investment Corporation

Gladstone Investment Corporation is an externally managed specialty finance company that invests in subordinated loans, mezzanine debt, preferred stock and common stock as well as warrants to purchase common stock of small and medium-sized private U.S. companies in connection with buyouts and other recapitalizations. We focus our investments in lower middle market companies, which we define as companies with annual earnings before interest, taxes, depreciation and amortization, or EBITDA, of between $3.0 million and $15.0 million in stable industries. When we invest in buyouts, we typically do so with the management team of the company being purchased and with other buyout funds. We also sometimes invest in senior secured loans, common stock and, to a much lesser extent, senior and subordinated syndicated loans. Our investment objective is to generate both current income and capital gains through these debt and equity instruments.

As of December 31, 2014, our portfolio consisted of investments in 32 companies in 14 states in 16 different industries with a fair value of $394.1 million, consisting of senior term debt, subordinated term debt, preferred equity and common equity. Our weighted average yield on our interest-bearing investments for the three and nine months ended December 31, 2014, excluding cash and cash equivalents and receipts recorded as other income, was 12.5% and 12.6%, respectively. For the fiscal years ended March 31, 2014 and 2013, our weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as other income, was 12.6% and 12.5%, respectively.

Since our initial public offering in June 2005, we have made 116 consecutive monthly distributions. Our monthly distribution declared per share of common stock was $0.06 in each of January, February and March 2015. Our monthly distribution declared per share for our 7.125% Series A Term Preferred Stock, par value $0.001 per share, or the Series A Term Preferred Stock, and our 6.75% Series B Term Preferred Stock, par value $0.001 per share, or the Series B Term Preferred Stock, was $0.1484375 and $0.421875, respectively, for each of January, February and March 2015.

As of December 31, 2014, we had 26,475,958 shares of common stock, par value $0.001 per share, outstanding, 1,600,000 shares of Series A Term Preferred Stock outstanding and 1,656,000 shares of Series B Term Preferred Stock outstanding. Our Series A Term Preferred Stock has a mandatory redemption date of February 28, 2017 and our Series B Term Preferred Stock has a mandatory redemption date of December 31, 2021.

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

Our principal executive offices are located at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, and our telephone number is (703) 287-5800. Our corporate website is located at http://www.GladstoneInvestment.com. Information on, or accessible through, our website is not incorporated into or a part of this prospectus supplement or the accompanying prospectus.

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Investment Strategy

We seek to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time; and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with each investment generally ranging from $5.0 million to $30.0 million, although investment size may vary, depending upon our total assets or available capital at the time of investment. We target an investment allocation of approximately 80.0% in debt securities and 20.0% in equity securities. As of December 31, 2014, our investment allocation was approximately 73.0% in debt securities and 27.0% in equity securities, at cost.

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

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

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

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

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

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

Preferred and Common Equity/Equivalents: We seek to invest a portion of our assets in equity securities which consist of preferred and common equity or limited liability company or partnership interests, or warrants or options to acquire such securities, and are generally in combination with our debt investment in a business. Additionally, we may receive equity investments derived from

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restructurings on some of our existing debt investments. In many cases, we will own a significant portion of the equity which may include having voting control of the businesses in which we invest.

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

Our Investment Adviser and Administrator

Gladstone Management Corporation, the Adviser, is our affiliate and investment adviser. The Adviser is led by a management team that has extensive experience in our lines of business. All of our executive officers currently serve as either directors or executive officers, or both, of the Adviser and the Administrator. In addition, all of our executive officers and directors, with the exception of Mr. Dullum, serve as executive officers or directors of other companies affiliated with us and advised by the Adviser (Gladstone Capital Corporation (NASDAQ: GLAD), Gladstone Commercial Corporation (NASDAQ: GOOD) and Gladstone Land Corporation (NASDAQ: LAND)). Our president, Mr. Dullum, serves as a director of our affiliate Gladstone Commercial Corporation. The Administrator, another of our affiliates, employs our chief financial officer and treasurer, chief compliance officer, general counsel and secretary (who also serves as the president of the Administrator) and their respective staffs. Our chief financial officer and treasurer is also the chief accounting officer of the Adviser and the chief financial officer and treasurer of Gladstone Capital. David Gladstone, our chairman and chief executive officer, also serves on the board of managers of our affiliate, Gladstone Securities, LLC, or Gladstone Securities, a privately-held broker-dealer registered with the Financial Industry Regulatory Authority, or FINRA , and insured by the Securities Investor Protection Corporation.

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

We are externally managed by the Adviser pursuant to an investment advisory and management agreement with the Adviser, which we refer to as the Advisory Agreement. The Adviser was organized as a Delaware corporation in 2002 and is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act. Since June 22, 2005, we have been externally managed by the Adviser, which is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in California, Illinois and New York. At a meeting of our Board of Directors held on July 15, 2014, our Board of Directors unanimously voted to approve the extension of the term of the Advisory Agreement through August 31, 2015. In reaching a decision to approve the Advisory Agreement, the Board of Directors reviewed a significant amount of information and considered, among other things:

- the nature, quality and extent of the advisory and other services to be provided to us by the Adviser;

- our investment performance and that of the Adviser;

the costs of the services to be provided and profits to be realized by the Adviser from the relationship with us;

the fee structures of comparable externally managed business development companies that engage in similar investing activities; and

various other matters.

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

Subsequent Events

Executive Officers

On January 9, 2015, David Watson resigned as the Company s chief financial officer and treasurer. On January, 13, 2015, our Board of Directors accepted Mr. Watson s resignation and appointed Melissa Morrison, Gladstone Capital s chief financial officer and treasurer, as the Company s chief financial officer and treasurer.

Distributions

In January 2015, our Board of Directors declared the following monthly cash distributions to common and preferred stockholders:

Declaration Date	Record Date	Payment Date	Distribution per Common Share	Distribution per Series A Term Preferred Share	Distribution per Series B Term Preferred Share
January 13, 2015	January 23, 2015	February 3, 2015	$ 0.06	$ 0.1484375	$ 0.140625
January 13, 2015	February 18, 2015	February 27, 2015	0.06	0.1484375	0.140625
January 13, 2015	March 20, 2015	March 31, 2015	0.06	0.1484375	0.140625
Total for the Quarter:			**$ 0.18**	**$ 0.4453125**	**$ 0.421875**

Investment Activity

On March 6, 2015, we invested $11.4 million in LogoSportswear, Inc. (Logo) through a combination of senior term debt and equity. Logo, headquartered in Cheshire, Connecticut, is an online provider of user-customized uniforms and apparel for teams, leagues, schools, businesses and organizations.

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THE OFFERING

Issuer	Gladstone Investment Corporation
Common stock offered by us	3,000,000 shares (or 3,450,000 shares if the underwriters exercise their overallotment option in full).
Common stock outstanding prior to this offering	26,475,958 shares
Common stock to be outstanding after this offering	29,475,958 shares (or 29,925,958 shares if the underwriters exercise their overallotment option in full).
Use of proceeds	We intend to use the net proceeds from this offering to repay borrowings under the revolving credit facility, or the Credit Facility, that our wholly owned subsidiary Gladstone Business Investment has entered into with Key Equipment Finance, or Key Equipment, as administrative agent, lead arranger and a lender, Branch Banking and Trust Company, or BB&T, as a lender and managing agent, and the Adviser, as servicer. Amounts repaid under the Credit Facility remain available for future borrowings and we may use the proceeds of future borrowings under the Credit Facility to make investments in accordance with our investment strategy and for other general corporate purposes. As of December 31, 2014, we had $95.8 million of borrowings outstanding under our revolving credit facility. Indebtedness under the Credit Facility currently accrues interest at the rate of approximately 3.5% and the revolving period ends in June 2017 and is due and payable in June 2019. See Use of Proceeds on page S-15 of this prospectus supplement for more information.
NASDAQ ticker symbol	GAIN
Distributions	We have paid monthly distributions to the holders of our common stock since our inception in July 2005 and intend to continue to do so. We made our first distribution on our Series A Term Preferred Stock in March 2012 and on our Series B Term Preferred Stock in December 2014, and have made monthly distributions on each thereafter. The amount of the monthly distribution on our common stock is determined by our Board of Directors on a quarterly basis and is based on our estimate of our annual investment company taxable income. See Price

Range of Common Stock and Distributions on page S-22 of this prospectus supplement and page 33 in the accompanying prospectus. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of securities will likely pay distributions in accordance with their terms. In January 2015, we declared monthly distributions of $0.06 per common share for each of January, February and March 2015. Because the record date for the March 2015 distribution is after the expected date of settlement, investors who purchase shares of our common stock in this offering will be entitled to receive such distribution.

Trading at a discount

Shares of closed-end investment companies frequently trade at a discount to their NAV per share. The possibility that our shares may trade at such discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether our shares will trade above, at or below NAV per share, although during the past three years, our common stock has generally traded, and at times significantly, at prices below NAV per share. Furthermore, the common stock offered pursuant to this prospectus supplement will be sold at a price below the most recently determined NAV per share of $8.55.

Certain anti-takeover provisions

Our Board of Directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain provisions of Delaware law and other measures we have adopted. See Certain Provisions of Delaware Law and of Our Certificate of Incorporation and Bylaws in the accompanying prospectus.

Management arrangements

Gladstone Management Corporation serves as our investment adviser, and Gladstone Administration, LLC serves serve as our administrator. For a description of the Adviser, the Administrator, the Gladstone Companies and our contractual arrangements with these companies, see Management Certain Transactions Investment Advisory and Management Agreement and Management Certain Transactions Administration Agreement in the accompanying prospectus.

Risk factors

Investing in our common stock involves risks. You should carefully consider the information in the sections entitled Risk Factors beginning on page S-10 of this prospectus supplement and page 12 of the accompanying prospectus before deciding to invest in our common stock.

Taxation

Prospective investors are urged to consult their own tax advisors regarding tax considerations in light of their personal investment circumstances.

We have elected to be treated, and intend to continue to so qualify each year, as a RIC under Subchapter M of the Code, and we generally do not expect to be subject to U.S. federal income tax on any ordinary income or capital gains that we distribute to our stockholders. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. See Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement contains a reference to fees or expenses paid by us or Gladstone Investment, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Investment. The following percentages were calculated based on actual expenses incurred in the quarter ended December 31, 2014, and average net assets for the quarter ended December 31, 2014. The table and examples below include all fees and expenses of our consolidated subsidiaries.

Stockholder Transaction Expenses:	
Sales load (as a percentage of offering price)(1)	5.00%
Offering expenses (as a percentage of offering price)(2)	1.04%
Distribution reinvestment plan expenses(3)	None
Total stockholder transaction expenses	6.04%
Annual expenses (as a percentage of net assets attributable to common stock)(4):	
Base Management fee(5)	3.42%
Loan servicing fee(6)	2.30%
Incentive fees (20.0% of realized capital gains and 20.0% of pre-incentive fee net investment income)(7)	2.59%
Interest payments on borrowed funds(8)	2.32%
Dividend expense on mandatorily redeemable preferred stock(9)	2.17%
Other expenses(10)	1.19%
Total annual expenses	13.99%

(1) This amount represents the expected underwriting discount with respect to shares of our common stock sold by us in this offering.

(2) The expenses of this offering payable by us (other than the underwriting discount) are estimated to be approximately $240,000. The amount of offering expenses, as a percentage of the offering price of shares to be sold in this offering, is based on an assumed public offering price of $7.72 per share, the last reported sales price of our common stock on the NASDAQ Global Select Market on March 6, 2015. If the underwriters exercise their overallotment option in full, the offering expenses borne by our stockholders (as a percentage of the offering price) will be approximately 0.9%.

(3) The expenses of the distribution reinvestment plan, if any, are included in Other expenses.

(4) The numbers presented in this table do not account for any credits or waivers from the Adviser for these fees. There can be no guarantee that the Adviser will waive or credit any portion of such fees in the future.

(5) Our annual base management fee is 2.0% (0.5% quarterly) of our average gross assets, which are defined as total assets of Gladstone Investment, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings and are estimated by assuming the base management fee remains consistent with fees incurred for the three months ended December 31, 2014. Under the investment advisory and management agreement, the Adviser has provided and continues to provide managerial assistance to our portfolio companies. It may also provide services other than managerial assistance to our portfolio companies

and receive fees therefor. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. At the end of each quarter, 100.0% of these fees may be voluntarily and irrevocably credited against the base management fee by the Adviser that we would otherwise be required to pay to the Adviser; however, a small percentage of certain of such fees, primarily for valuation of the portfolio company, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser. See Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus.

(6) In addition, the Adviser services, administers and collects on the loans held by Gladstone Business Investment, LLC (Business Investment), in return for which the Adviser receives a 2.0% annual loan servicing fee payable monthly by Business Investment based on the monthly aggregate balance of loans held by Business Investment in accordance with our Credit Facility. The Loan Servicing Fee is estimated by assuming the Loan Servicing Fee remains consistent with the fees incurred for the three months ended December 31, 2014. For the three months ended December 31, 2014, the total gross loan servicing fees were $1.3 million. The entire loan servicing fee paid to the Adviser by Business Investment is voluntarily and irrevocably credited against the base management fee otherwise payable to the Adviser since Business Investment is a consolidated subsidiary of the Company, and overall, the base management fee cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year pursuant to the Advisory Agreement. After all voluntary and irrevocable credits from the Adviser described in this footnote and footnote 5 above that are applied against the base management fee, the total annual expenses after fee credits or waivers would be 10.38% for the quarter ended December 31, 2014. See Management Certain Transactions Investment Advisory and Management Agreement in the accompanying prospectus and footnote 7 below.

(7) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20.0% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate of our net assets, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100.0% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125.0% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide the Adviser with 20.0% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 2.0% base management fee (see footnote 5 above). The capital gains-based incentive fee equals 20.0% of our net realized capital gains since our inception, if any, computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year. We have not recorded any capital gains-based incentive fee from our inception through December 31, 2014.

(8) Includes deferred financing costs. The borrowing capacity on our Credit Facility is currently $185.0 million. The revolving period ends June 26, 2017 and the Credit Facility matures on June 26, 2019 (two years after the revolving period end date). We have drawn down on our Credit Facility and we expect to borrow additional funds in the future up to the amount such that our asset coverage, as defined in the 1940 Act, is at least 200.0% after each issuance of our senior securities. Assuming that we borrowed $185.0 million, based on an interest rate of 3.5% plus an additional fee related to borrowings of 0.57%, for an aggregate rate of 4.07%, interest payments and amortization of deferred financing costs on borrowed funds would have been 3.34% of our average net assets for the quarter ended December 31, 2014. As of December 31, 2014, we had $95.8 million in borrowings outstanding under our Credit Facility.

(9) In March 2012, we completed a public offering of our Series A Term Preferred Stock, at a public offering price of $25.00 per share. In such offering, we issued 1.6 million shares of Series A Term Preferred Stock. In November 2014, we completed a public offering of our Series B Term Preferred Stock, at a public offering price of $25.00 per share. In such

offering, we issued approximately 1.7 million shares of Series B Term Preferred Stock. Dividend expense on mandatorily redeemable preferred stock includes the amounts paid to preferred stockholders during the three months ended December 31, 2014. Also included in this line item is the amortization of the offering costs related to our term preferred stock offerings.

(10) Other expenses are based on estimated amounts for the current fiscal year and includes our overhead expenses, such as payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the administration agreement. See Management Certain Transactions Administration Agreement in the accompanying prospectus.

Example

The following examples demonstrate the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our securities. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above. **The examples below and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, incentive fees, if any, and other expenses) may be greater or less than those shown. While the example assumes, as required by the SEC, a 5.00% annual return, our performance will vary and may result in a return greater or less than 5.00%.**

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment:				
assuming a 5.00% annual return consisting entirely of ordinary income(1)(2)	$ 210	$ 535	$ 764	$ 1,083
assuming a 5.00% annual return consisting entirely of capital gains(2)(3)	$ 218	$ 551	$ 781	$ 1,092

(1) While the example assumes, as required by the SEC, a 5.00% annual return, our performance will vary and may result in a return greater or less than 5.00%. For purposes of this example, we have assumed that the entire amount of such 5.00% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) on our investments. Because the assumed 5.00% annual return is significantly below the hurdle rate of 7.00% (annualized) that we must achieve under the investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of this example, that no income-based incentive fee would be payable if we realized a 5.00% annual return on our investments.

(2) While the example assumes reinvestment of all distributions at NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See Dividend Reinvestment Plan in the accompanying prospectus for additional information regarding our distribution reinvestment plan.

(3) For purposes of this example, we have assumed that the entire amount of such 5.00% annual return would constitute capital gains.

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RISK FACTORS

Our management will have broad discretion in the use of the net proceeds from this offering and may allocate the net proceeds from this offering in ways that you and other stockholders may not approve.

Our management will have broad discretion in the use of the net proceeds, including for any of the purposes described in the section entitled Use of Proceeds, and you will not have the opportunity as part of your investment decision to assess whether the net proceeds are being used in ways with which you may not agree or may not otherwise be considered appropriate. Because of the number and variability of factors that will determine our use of the net proceeds from this offering, their ultimate use may vary substantially from their currently intended use. The failure of our management to use these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

We may be unable to invest a significant portion of the net proceeds of this offering on acceptable terms.

Delays in investing the net proceeds of this offering may impair our performance. We cannot assure you that we will be able to identify investments that meet our investment objectives or that any investment we make will produce a positive return. We may be unable to invest the net proceeds of this offering on acceptable terms within the time period that we anticipate or at all, which could adversely affect our financial condition and operating results.

Market interest rates may have an effect on the value of our common stock.

One of the factors that will influence the price of our common stock will be the distribution yield on our common stock (as a percentage of the price of our common stock) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our common stock to expect a higher distribution yield and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our common stock to decrease.

Our NAV may change significantly since our last valuation at March 2, 2015.

In connection with this offering, our Board of Directors reviewed and approved the fair value of our portfolio investments on March 2, 2015 pursuant to our established investment valuation policy based on recommendations provided by professionals of the Adviser and Administrator with oversight and direction from our valuation officer. Generally, our Board of Directors reviews and approves the fair value of our portfolio of investments on a quarterly basis, at which time certain additional inputs to our valuation policy are available that were not available to our Board of Directors mid-quarter, including, but not limited to, inputs from third party independent valuation firms, and quarterly portfolio company information. Therefore, our March 2, 2015 NAV determination also did not have these types of additional inputs and relied on certain of these inputs as of December 31, 2014. Further, our financial statements have not been audited by our independent registered public accounting firm for any periods since March 31, 2014. The fair value of various individual investments in our portfolio and/or the aggregate fair value of our investments may have changed significantly since that time. If our Board of Directors determines that the fair value of our investment portfolio at March 31, 2015 was less than such fair value at March 2, 2015, then we will record an unrealized loss on our investment portfolio and report a lower NAV per share than is reflected in the Selected Financial Information and the financial statements included elsewhere in this prospectus supplement. If our Board of Directors determines that the fair value of our investment portfolio at March 31, 2015 was greater than such fair value at March 2, 2015, we will record an unrealized gain on our investment portfolio and report a greater NAV per share than so reflected elsewhere in this prospectus supplement. Upon publication of this information in connection with our announcement of operating results for our fiscal year ended March 31, 2015, the market price of our common stock may fluctuate materially, and may be substantially less than the price per share you pay for our common stock in this offering.

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Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their NAV.

Shares of closed-end investment companies, including BDCs, frequently trade at a discount from NAV. This characteristic of closed-end investment companies and BDCs is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether our common stock will trade at, above or below NAV, however our common stock has consistently traded below NAV in the last three years. In addition, if our common stock trades below NAV, we will generally not be able to issue additional common stock at the market price without the approval of our stockholders and Board of Directors, including a majority of our independent directors. At our Annual Stockholders Meeting on August 7, 2014, our stockholders voted to allow us to issue common stock at a price below NAV per share for a one-year period. Our stockholders did not specify a maximum discount below NAV at which we are able to issue our common stock but we are unable to issue and sell more than 25% of our then outstanding common stock immediately prior to any offering below NAV.

Stockholders who do not participate in this offering will experience immediate dilution in an amount that may be material.

We have obtained approval from our stockholders for us to be able to sell an unlimited number of shares of our common stock at any level of discount from NAV per share in certain circumstances during a one-year period ending in August 2015. If we issue or sell shares of our common stock at a discount to NAV, and we intend to so in this offering, it will pose a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience an immediate decrease in NAV per share (as well as in the aggregate NAV of their shares if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. For additional information and hypothetical examples of these risks, see Sales of Common Stock Below Net Asset Value in this prospectus supplement and in the accompanying prospectus.

The market price of our common stock may fluctuate significantly.

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance, conditions and prospects. These factors include:

- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of the companies;
- changes in regulatory policies, accounting pronouncements or tax guidelines, particularly with respect to BDCs or RICs;
- loss of our qualification as a RIC or BDC;
- changes in earnings or variations in operating results;

changes in the value of our portfolio of investments;

changes in accounting guidelines governing valuation of our investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

departure of the Adviser s or any of its affiliates key personnel;

operating performance of companies comparable to us;

general economic trends and other external factors; and

loss of a major funding source.

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It is impossible to provide any assurance that the market price of our common stock will not decline in the future, and it may be difficult for our stockholders to resell their shares of our common stock in the amount or at prices or times that they find attractive, or at all.

Holders of our preferred stock and future holders of any securities ranking senior to our common stock have dividend, distribution and liquidation rights that are senior to the rights of the holders of our common stock.

In March 2012, we completed a public offering of the Series A Term Preferred Stock, at a public offering price of $25.00 per share. In such offering, we issued 1.6 million shares of Series A Term Preferred Stock. In November 2014, we completed a public offering of the Series B Term Preferred Stock, at a public offering price of $25.00 per share. In such offering we issued approximately 1.7 million shares of Series B Term Preferred Stock. Each of the Series A Term Preferred Stock and Series B Term Preferred Stock has dividend, distribution and liquidation rights that are senior to the rights of the holders of our common stock. Further, in the future, we may attempt to increase our capital resources by making additional offerings of preferred equity securities or issuing debt securities. Upon liquidation, holders of our preferred stock, holders of our debt securities, if any, and lenders with respect to other borrowings, including the Credit Facility, would receive a distribution of our available assets in full prior to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our common stockholders bear the risk of our future offerings reducing the per share trading price of our common stock and diluting their interest in us.

Portfolio company-related litigation could result in costs, including defense costs or damages, and the diversion of management time and resources.

In the course of investing in and often providing significant managerial assistance to certain of our portfolio companies, certain persons employed by the Adviser sometimes serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, even if meritless, we or such employees may be named as defendants in such litigation, which could result in additional costs, including defense costs, and the diversion of management time and resources. We may be unable to accurately estimate our exposure to litigation risk if we record balance sheet reserves for probable loss contingencies. As a result, any reserves we establish to cover any settlements or judgments may not be sufficient to cover our actual financial exposure, which may have a material impact on our results of operations or financial condition.

In view of the inherent difficulty of predicting the outcome of legal actions and regulatory matters, we cannot provide assurance as to the outcome of any threatened or pending matter or, if resolved adversely, the costs associated with any such matter, particularly where the claimant seeks very large or indeterminate damages or where the matter presents novel legal theories, involves a large number of parties or is at a preliminary stage. The resolution of any such matters may be time consuming, expensive, and may distract management from the conduct of our business. The resolution of certain threatened or pending legal actions or regulatory matters, if unfavorable, whether in settlement or a judgment, could have a material adverse effect on our financial condition and on our results of operations for the quarter in which such actions or matters are resolved or a reserve is established.

For example, a former portfolio company, Noble Logistics, Inc. (Noble), is a defendant in employment law wage and hour and independent contractor misclassification claims in a purported class action seeking monetary damages, Maximo v. Aspen Contracting California LLC d/b/a/ Noble Logistics, et al. (Maximo). Noble is a debtor in a bankruptcy case under Chapter 11 of the federal bankruptcy code, pending in federal bankruptcy court in Delaware. The claims against Noble asserted in the Maximo case have been stayed by the filing of Noble s bankruptcy case. A lawsuit brought by plaintiffs Clarence and Sheila Walder against a customer of Noble is also pending in California based on similar facts relating to Noble and claims under California law. The Maximo and Walder plaintiffs have attempted to bring claims against the Company and other former investors in Noble based primarily on allegations that the Company and other investors controlled Noble and were responsible for the misclassification of Noble s workforce. To date, claims against the Company have been struck by the bankruptcy court or voluntarily dismissed by the plaintiffs in connection with the automatic stay arising in connection with the Noble bankruptcy. While neither the Company nor any of its portfolio companies (other than Noble) are currently defendants in these cases, they may in the future be subject to claims by these plaintiffs or other persons alleging similar claims, or may expend funds on behalf of Noble to defend claims.

While the Company believes it would have valid defenses to potential claims, based on the current claims and facts alleged, and intends to defend any claims vigorously, it may nevertheless expend significant amounts of money in defense costs and expenses. Further, if the Company enters into settlements or suffers an adverse outcome in any litigation, the Company could be required to pay significant amounts. In addition, if any of the Company s portfolio companies become subject to direct or indirect claims or other obligations, such as defense costs or damages in litigation or settlement, the Company s investment in such companies could diminish in value and the Company could suffer indirect losses. Further, these matters could cause the Company to expend significant management time and effort in connection with assessment and defense of any claims. No range of potential expenses, costs or damages in connection with these matters can be estimated at this time.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this prospectus supplement or the accompanying prospectus, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, growth, plan, intend, ex 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, financial condition or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include:

- further adverse changes in the economy and the capital markets;
- risks associated with negotiation and consummation of pending and future transactions;
- the loss of one or more of our executive officers, in particular David Gladstone, David A. R. Dullum or Terry Lee Brubaker;
- changes in our business strategy;
- availability, terms and deployment of capital;
- changes in our industry, interest rates or exchange rates or the general economy;
- our business prospects and the prospects of our portfolio companies;
- the degree and nature of our competition;
- our ability to maintain our qualification as a RIC and as a BDC;
- our ability to defend successfully claims or litigation against us; and
- those factors described in the Risk Factors sections of this prospectus supplement and the accompanying prospectus.

We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus supplement or the accompanying prospectus, except as otherwise required by applicable law. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 3,000,000 shares of our common stock that we are offering, after deducting underwriting discounts and commissions and expenses of this offering payable by us, will be approximately $21.8 million (or $25.1 million, if the underwriters exercise their overallotment option in full) based on an assumed offering price of $7.72 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering to repay borrowings under the Credit Facility. Amounts repaid under the Credit Facility remain available for future borrowings and we may use the proceeds of future borrowings under the Credit Facility to make investments in accordance with our investment strategy and for other general corporate purposes. As of December 31, 2014, we had $95.8 million of borrowings outstanding under our Credit Facility. Indebtedness under our Credit Facility currently accrues interest at the rate of approximately 3.5% and the revolving period ends in June 2017 and is due and payable in June 2019. We anticipate that substantially all of the net proceeds of the offering will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of the offering primarily in cash, cash equivalents, U.S. government securities, and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2014:

on an actual basis; and

on an as adjusted basis to give effect to the sale of 3,000,000 shares of common stock in this offering at an assumed per share price of $7.72 per share (the last reported sales price of our common stock on March 6, 2015) after deducting underwriters discounts and commissions and estimated offering expenses payable by us (and assuming the underwriters overallotment option is not exercised).

	As of December 31, 2014	
	Actual	As Adjusted
	(Unaudited) (Dollars in thousands)	
Borrowings		
Borrowings at fair value (cost: $95,800, actual; $74,038, as adjusted)(1)(2)	$ 95,800	$ 74,038
Secured borrowings	5,096	5,096
Total Borrowings	$ 100,896	$ 79,134
Preferred Stock		
7.125% Series A Cumulative Term Preferred Stock, $0.001 par value per share; $25 liquidation preference per share; 1,610,000 shares authorized and 1,600,000 issued and outstanding, actual and as adjusted(3)	$ 40,000	$ 40,000
6.75% Series B Cumulative Term Preferred Stock, $0.001 par value per share; $25 liquidation preference per share; 2,000,000 shares authorized and 1,656,000 issued and outstanding, actual and as adjusted(3)	41,400	41,000
Total Preferred Stock	$ 81,400	$ 81,400
Net Assets Applicable to Common Stockholders		
Common stock, $0.001 par value per share, 100,000,000 shares authorized, actual and as adjusted; 26,475,958 shares issued and outstanding, actual and 29,475,958 shares issued and outstanding, as adjusted(3)	$ 26	$ 29
Capital in excess of par value	286,726	308,485
Cumulative net unrealized depreciation on investments	(63,220)	(63,220)
Cumulative net unrealized appreciation on other	(74)	(74)
Net investment income in excess of distributions	3,233	3,233
Accumulated net realized losses	(419)	(419)

Total Net Assets Available to Common Stockholders	$ 226,272	$ 248,034
Total Capitalization	**$ 408,568**	**$ 408,568**

(1) Our borrowings have not been fair-value adjusted for the as adjusted presentation as of December 31, 2014.
(2) Does not include approximately $13.0 million additional net borrowings we made subsequent to December 31, 2014.
(3) None of these outstanding shares are held by us or for our account.

The following are our outstanding classes of securities as of December 31, 2014:

TITLE OF CLASS	AMOUNT AUTHORIZED	AMOUNT HELD BY US OR FOR OUR ACCOUNT	AMOUNT OUTSTANDING (EXCLUSIVE OF AMOUNTS HELD BY US OR FOR OUR ACCOUNT)
Common Stock	100,000,000		26,475,958
Series A Term Preferred Stock	1,610,000		1,600,000
Series B Term Preferred Stock	2,000,000		1,656,000

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SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2014 annual stockholders meeting on August 7, 2014, our stockholders approved our ability to issue and sell shares of our common stock at a price below the then current NAV per common share during a period beginning on August 7, 2014 and expiring on the first anniversary of such date (the Stockholder Approval). The offering of common stock being made pursuant to this prospectus supplement is at a price below the most recently reported NAV on December 31, 2014 of $8.55 per share, which our Board of Directors determined had not changed at March 2, 2015. To sell shares of common stock at below NAV per share, pursuant to the Stockholder Approval, the 1940 Act mandates that a majority of our directors who have no financial interest in the sale and a majority of our independent directors have determined (i) that such sale and issuance is in our best interests and in the best interests of our stockholders and (ii) immediately prior to issuance, and in good faith and in consultation with the underwriters of the offering, that the price at which such shares of common stock are to be sold is not less than a price which closely approximates the market value of those shares of common stock, less any distributing commission or discount.

In addition to the mandates of the 1940 Act pertaining to issuances and sales of common stock at a price below NAV per share, our Stockholder Approval requires that any offering of common stock at a price below NAV per share satisfy the following: (i) the total number of shares issued and sold pursuant to such Stockholder Approval may not exceed 25% of our currently outstanding common stock immediately prior to each such sale; and (ii) the Board concludes that there are attractive near-term investment opportunities that it reasonably believes will lead to a long-term increase in NAV per share. This offering meets these additional requirements.

This offering of common stock below its NAV per share is designed to raise capital for investment in accordance with our investment objectives.

In making a determination that an offering of common stock below its NAV per share is in our and our stockholders best interests, our Board of Directors has considered a variety of factors including, but not limited to:

- the effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;

- the amount per share by which the offering price per share and the net proceeds per share are less than our most recently determined NAV per share;

- the relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;

- whether the estimated offering price would closely approximate the market value of shares of our common stock;

- the potential market impact of being able to raise capital during the current financial market difficulties;

- the nature of any new investors anticipated to acquire shares of our common stock in the offering;
- the anticipated rate of return on and quality, type and availability of investments; and
- the leverage available to us.

Our Board of Directors has also considered the fact that sales of shares of common stock at a discount will benefit the Adviser as the Adviser will ultimately earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at a premium to NAV per share.

Sales by us of our common stock at a discount from NAV per share pose potential risks for our existing stockholders whether or not they participate in this offering, as well as for new investors who participate in this offering. Any sale of common stock at a price below NAV per share results in an immediate dilution to existing common stockholders who do not participate in such sale on at least a pro-rata basis. See Risk Factors Stockholders who do not participate in this offering will experience immediate dilution in an amount that may be material in this prospectus supplement and Risk Factors Risks Related to an Investment in Our Securities in the accompanying prospectus.

The following three headings and accompanying tables explain and provide hypothetical examples on the impact of this offering of our common stock at a price less than NAV per share on three different types of investors:

- existing stockholders who do not purchase any shares in the offering;
- existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and
- new investors who become stockholders by purchasing shares in the offering.

Impact on Existing Stockholders Who Do Not Participate in the Offering

Our existing common stockholders who do not participate in this offering or who do not buy additional shares in the secondary market at the same or lower price we obtain in this offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate dilution in the NAV of the common shares they hold and their NAV per common share. These common stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to this offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per common share. This decrease could be more pronounced as the size of the offering and level of discounts increase.

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The following table illustrates the level of NAV dilution that could be experienced by a common stockholder that does not participate in this offering. It is not possible to predict the level of market price decline that may occur. The table below is based upon financial information as of December 31, 2014. NAV has not been finally determined for any day after March 2, 2015 as of which NAV per share remained unchanged from the reported NAV per share as of December 31, 2014. The following example assumes a sale of 3,000,000 shares of common stock at an assumed public offering price of $7.72 per share, with a 5.0% underwriting discount and commission and $240,000 of offering expenses ($0.08 per share, net). The numbers in this table have been rounded to the nearest hundredth of one percent.

	PRIOR TO SALE BELOW NAV	FOLLOWING SALE	% CHANGE
Offering Price			
Price per common share to public		$ 7.72	
Net proceeds per common share to us		$ 7.25	
Decrease to NAV			
Total common shares outstanding	26,475,958	29,475,958	11.33%
NAV per common share	$ 8.55	$ 8.42	(1.54)
Dilution to Stockholder			
Common shares held by common stockholder	26,476	26,476	
Percentage held by common stockholder	0.10%	0.09%	(10.18)
Total Asset Values			
Total NAV held by common stockholder	$ 226,369	$ 222,877	(1.54)
Total investment by common stockholder (Assumed to be $8.55 per common share on common shares held prior to sale)	$ 226,369	$ 226,369	
Total dilution to common stockholder (Total NAV less total investment)		$ (3,492)	
Per Share Amounts			
NAV per share held by common stockholder	$ 8.55	$ 8.42	(1.54)
Investment per share held by common stockholder (Assumed to be $8.55 per common share on common shares held prior to sale)	$ 8.55	$ 8.55	
Dilution per common share held by stockholder (NAV per common share less investment per share)		$ (0.13)	
Percentage dilution to common stockholder (Dilution per common share divided by investment per common share)			(1.54)

Impact on Existing Stockholders Who Do Participate in the Offering

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

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The following table illustrates the level of dilution and accretion for a common stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 1,500 shares, which is 0.05% of the offering rather than its 0.10% proportionate share) and (2) 150% of such percentage (i.e., 4,500 shares, which is 0.15% of the offering rather than its 0.10% proportionate share). The table below is shown based upon financial information as of December 31, 2014. NAV per share has not been finally determined for any day after March 2, 2015 as of which NAV per share remained unchanged from reported NAV per share as of December 31, 2014. The following example assumes a sale of 3,000,000 shares of common stock at an assumed public offering price of $7.72 per share, with a 5.0% underwriting discount and commission and $240,000 of offering expenses ($0.08 per share, net). The numbers in this table have been rounded to the nearest hundredth of one percent.

		50% PARTICIPATION		150% PARTICIPATION	
	PRIOR TO SALE BELOW NAV	FOLLOWING SALE	% CHANGE	FOLLOWING SALE	% CHANGE
Offering Price					
Price per common share to public		$ 7.72		$ 7.72	
Net Proceeds per common share to issuer		$ 7.25		$ 7.25	
Decrease to NAV					
Total common shares outstanding	26,475,958	29,475,958	11.33%	29,475,958	11.33%
NAV per common share	$ 8.55	$ 8.42	(1.54)	$ 8.42	(1.54)
Dilution/Accretion to Common Stockholder					
Common shares held by stockholder	26,476	27,976	5.67	30,976	17.00
Percentage held by common stockholder	0.10%	0.09%	(5.09)	0.11%	5.09
Total Asset Values					
Total NAV held by common stockholder	$ 226,369	$ 235,504	4.04	$ 260,759	15.19
Total investment by common stockholder (Assumed to be $8.55 per common share on common shares held prior to sale)	$ 226,369	$ 237,949	5.12	$ 261,109	15.35
Total dilution to common stockholder (Total NAV less total investment)		$ (2,445)		$ (351)	
Per Common Share Amounts					
NAV per common share held by stockholder	$ 8.55	$ 8.42	(1.54)	$ 8.42	(1.54)
Investment per common share held by stockholder (Assumed to be $8.55 per common share on	$ 8.55	$ 8.51	(0.52)	$ 8.43	(1.41)

common shares held prior to sale)				
Dilution per common share held by stockholder (NAV per common share less investment per common share)	$ (0.09)		$ (0.01)	
Percentage dilution to stockholder (Dilution per common share divided by investment per common share)		(1.02)		(0.13)

Impact on New Investors

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

The following table illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same percentage (0.10%) of the common shares in the offering as the common stockholder in the prior examples held immediately prior to the offering. These stockholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases. It is not possible to predict the level of market price decline that may occur. The table below is shown based upon financial information as of December 31, 2014. NAV has not been finally determined for any day after March 2, 2015 as of which NAV per share remained unchanged from reported NAV per share as of December 31, 2014. The following example assumes a sale of 3,000,000 shares of common stock at an assumed public offering price of $7.72 per share, with a 5.0% underwriting discount and commission and $240,000 of offering expenses ($0.08 per share, net). The numbers in this table have been rounded to the nearest hundredth of one percent.

	PRIOR TO SALE BELOW NAV	FOLLOWING SALE	% CHANGE
Offering Price			
Price per common share to public		$ 7.72	
Net proceeds per common share to issuer		$ 7.25	
Decrease to NAV			
Total common shares outstanding	26,475,958	29,475,958	11.33%
NAV per common share	$ 8.55	$ 8.42	(1.54)
Accretion to New Investor			
Common shares held by new investor	0	3,000	
Percentage held by new investor	0.0%	0.01%	
Total Asset Values			
Total NAV held by new investor	0	$ 25,254	
Total investment by new investor (At price to public)	0	$ 23,160	
Total accretion to new investor (Total NAV less total investment)		$ 2,094	
Per Common Share Amounts			
NAV per common share held by new investor		$ 8.42	
Investment per share held by new investor (At price to public)		$ 7.72	
Accretion per common share held by new investor (NAV per common share less investment per common share)		$ 0.70	
			9.04

Percentage accretion to new investor (accretion per common share divided by investment per common share)

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We currently intend to distribute in the form of cash distributions a minimum of 90% of our ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, on a quarterly basis to our stockholders in the form of monthly distributions. We intend to retain net long-term capital gains in excess of net short-term losses and treat them as deemed distributions for tax purposes. We report the estimated tax characteristics of each distribution when declared while the actual tax characteristics of distributions are reported annually to each stockholder on Form 1099 DIV. There is no assurance that we will achieve investment results or maintain a tax status that will permit any specified level of cash distributions or year-to-year increases in cash distributions. At the option of a holder of record of common stock, all cash distributions can be reinvested automatically under our distribution reinvestment plan in additional whole and fractional shares. A stockholder whose shares are held in the name of a broker or other nominee should contact the broker or nominee regarding participation in our distribution reinvestment plan on the stockholder s behalf. See Risk Factors We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification; Dividend Reinvestment Plan; and Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

SHARE PRICE DATA

Our common stock is traded on The NASDAQ Global Select Market, or the NASDAQ, under the symbol GAIN. The following table reflects, by quarter, the high and low sales prices per share of our common stock on the NASDAQ, the sales prices as a percentage of NAV and quarterly distributions declared per share for each fiscal quarter during the last two completed fiscal years and the current fiscal year through March 6, 2015.

	NAV PER SHARE(1)	SALES PRICE HIGH	SALES PRICE LOW	DISTRIBUTION DECLARED	(DISCOUNT) OR PREMIUM OF HIGH SALES PRICE TO NAV(2)	DISCOUNT OF LOW SALES PRICE TO NAV(2)
Fiscal Year ending March 31, 2013						
First Quarter	$ 9.10	$ 7.81	$ 6.90	$ 0.150	(14)%	(24)%
Second Quarter	8.93	8.07	7.20	0.150	(10)	(19)
Third Quarter	8.65	8.02	6.59	0.150	(7)	(24)
Fourth Quarter	9.10	7.72	6.95	0.150	(15)	(24)
Fiscal Year ended March 31, 2014						
First Quarter	8.70	7.52	7.02	0.150	(14)	(19)
Second Quarter	9.12	7.57	6.80	0.150	(17)	(25)
Third Quarter	8.49	8.06	6.80	0.230	(5)	(20)
Fourth Quarter	8.34	8.50	7.35	0.180	2	(12)
Fiscal Year ended March 31, 2015						
First Quarter	8.57	8.39	7.23	0.180	(2)	(16)
Second Quarter	8.49	7.77	7.08	0.180	(8)	(17)
Third Quarter	8.55	7.50	6.72	0.230	(12)	(21)
Fourth Quarter (through March 6, 2015)	*	8.04	6.98	0.180	*	*

(1) NAV per share is determined as of the last day in the relevant quarter and, therefore, may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on the number of outstanding shares at the end of each period.

(2) The (discounts) premiums set forth in these columns represent the high or low, as applicable, sale prices per share for the relevant quarter minus the NAV per share as of the end of such quarter, and therefore may not reflect the (discount) premium to NAV per share on the date of the high and low sales prices.

* Not yet available, as the NAV per share as of the end of this quarter has not yet been determined.

As of March 2, 2015, there were approximately 23 record owners of our common stock.

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SELECTED FINANCIAL INFORMATION

The following consolidated selected financial data for the fiscal years ended March 31, 2014, 2013, 2012, 2011 and 2010 are derived from our consolidated financial statements that have been audited by PricewaterhouseCoopers, LLP, an independent registered public accounting firm. The consolidated selected financial data for the nine months ended December 31, 2014 and 2013 are derived from our unaudited condensed consolidated financial statements included in this prospectus supplement. The other unaudited data included at the bottom of the table are also unaudited. The data should be read in conjunction with our consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement and the accompanying prospectus.

	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013	Year Ended March 31, 2014	Year Ended March 31, 2013	Year Ended March 31, 2012	Year Ended March 31, 2011	Year Ended March 31, 2010
	(Dollar amounts in thousands, except per share data)						
Statement of operations data:							
Total investment income	$ 30,470	$ 27,453	$ 36,264	$ 30,538	$ 21,242	$ 26,064	$ 20,785
Total expenses net of credits from Adviser	15,568	12,790	16,957	14,050	7,499	9,893	10,187
Net investment income	14,902	14,663	19,307	16,488	13,743	16,171	10,598
Net gain (loss) on investments	6,154	(16,929)	(20,636)	791	8,223	268	(21,669)
Net increase (decrease) in net assets resulting from operations	$ 21,056	$ (2,266)	$ (1,329)	$ 17,279	$ 21,966	$ 16,439	$ (11,071)
Per share data[(A)]:							
Net increase (decrease) in net assets resulting from operations per common share basic and diluted	$ 0.80	$ (0.09)	$ (0.05)	$ 0.71	$ 0.99	$ 0.74	$ (0.50)
Net investment income before net gain (loss) on investments per	0.56	0.55	0.73	0.68	0.62	0.73	0.48

common share basic and diluted							
Cash distributions declared per common share	0.59	0.53	0.71	0.60	0.61	0.48	0.48
<u>Statement of assets and liabilities data:</u>							
Total assets	$ 412,036	$ 347,095	$ 330,694	$ 379,803	$ 325,297	$ 241,109	$ 297,161
Net assets	226,272	224,665	220,837	240,963	207,216	198,829	192,978
NAV per common share	8.55	8.49	8.34	9.10	9.38	9.00	8.74
Common shares outstanding	26,475,958	26,475,958	26,475,958	26,475,958	22,080,133	22,080,133	22,080,133
Weighted common shares outstanding basic and diluted	26,475,958	26,475,958	26,475,958	24,189,148	22,080,133	22,080,133	22,080,133
<u>Senior securities data[(B)]:</u>							
Borrowings under credit facility at cost	$ 95,800	$ 36,200	$ 61,250	$ 31,000	$	$	$ 27,800
Short term loan	5,096	13,501		58,016	76,005	40,000	75,000
Mandatorily redeemable preferred stock	81,400	40,000	40,000	40,000	40,000		
Asset coverage[(C)]	221%	336%	298%	272%	268%	534%	281%
Asset coverage per unit[(D)]	$ 2,207	$ 3,360	$ 2,978	$ 2,725	$ 2,676	$ 5,344	$ 2,814
<u>Other unaudited data:</u>							
Number of portfolio companies	32	26	29	21	17	17	16
Average size of portfolio company investment at cost	$ 14,293	$ 13,849	$ 13,225	$ 15,544	$ 15,670	$ 11,600	$ 14,223
Principal amount of new investments	67,202	96,848	132,291	87,607	91,298	43,634	4,788
Proceeds from loan repayments and investments sold	5,358	78,236	83,415	28,424	27,185	97,491	90,240

Weighted average yield on investments[(E)]	12.6%	12.6%	12.6%	12.5%	12.3%	11.4%	11.0%
Total return[(F)]	(8.3)	18.5	23.5	4.7	5.6	38.6	79.8

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(A) Per share data for net (decrease) increase in net assets resulting from operations is based on the weighted average common stock outstanding for both basic and diluted.

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

(C) As a BDC, we are generally required to maintain asset coverage (as defined in Section 18(h) of the 1940 Act) of at least 200% on our senior securities representing indebtedness and our senior securities that are stock. Our Series A Term Preferred Stock and Series B Term Preferred Stock are senior securities that are stock.

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

(E) Weighted average yield on investments equals interest income on investments divided by the weighted average interest-bearing debt investment balance throughout the year.

(F) Total return equals the increase (decrease) of the ending market value over the beginning market value plus monthly distributions divided by the monthly beginning market value.

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SELECTED QUARTERLY FINANCIAL DATA

The following tables set forth certain quarterly financial information for each of the eight quarters in the two fiscal years ended March 31, 2014 and the first three quarters of the fiscal year ending March 31, 2015. The information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

	Quarter Ended		
Fiscal Year 2015	**June 30, 2014**	**September 30, 2014**	**December 31, 2014**
Total investment income	$ 9,837	$ 9,071	$ 11,562
Net investment income	4,859	4,204	5,839
Net increase in net assets resulting from operations	10,770	2,697	7,589
Net increase in net assets resulting from operations per weighted average common share basic & diluted	$ 0.41	$ 0.10	$ 0.29

	Quarter Ended			
Fiscal Year 2014	**June 30, 2013**	**September 30, 2013**	**December 31, 2013**	**March 31, 2014**
Total investment income	$ 7,398	$ 11,359	$ 8,696	$ 8,811
Net investment income	4,033	6,228	4,402	4,644
Net (decrease) increase in net assets resulting from operations	(6,519)	14,939	(10,686)	937
Net (decrease) increase in net assets resulting from operations per weighted average common share basic & diluted	$ (0.25)	$ 0.57	$ (0.40)	$ 0.03

	Quarter Ended			
Fiscal Year 2013	**June 30, 2012**	**September 30, 2012**	**December 31, 2012**	**March 31, 2013**
Total investment income	$ 5,905	$ 6,974	$ 7,184	$ 10,475
Net investment income	3,238	3,451	3,952	5,847
Net (decrease) increase in net assets resulting from operations	(3,017)	(353)	4,699	15,950
Net (decrease) increase in net assets resulting from operations per weighted average common share basic & diluted	$ (0.13)	$ (0.02)	$ 0.18	$ 0.60

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

OVERVIEW

General

We are an externally-managed, closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Code. As a BDC and a RIC, we are also subject to certain constraints, including limitations imposed by the 1940 Act and the Code.

We were incorporated under the General Corporation Law of the State of Delaware on February 18, 2005. We were established for the purpose of investing in debt and equity securities of established private businesses in the U.S. debt investments primarily come in the form of three types of loans: senior term loans, senior subordinated loans and junior subordinated debt. Equity investments primarily take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. To a much lesser extent, we also invest in senior and subordinated syndicated loans. We seek to (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that we anticipate will grow over time and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we hope will appreciate over time so that we can sell them for capital gains. We expect that our investment allocation over time will consist of approximately 80.0% in debt securities and 20.0% in equity securities. As of December 31, 2014, our investment allocation was 73.0% in debt securities and 27.0% in equity securities, at cost.

We focus on investing in small and medium-sized private U.S. businesses that meet certain of the following criteria which we believe will give us the best potential to sell our equity positions at a later date for capital gains: the potential for growth in cash flow, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, profitable operations based on the borrower s cash flow and reasonable capitalization of the borrower (usually by leveraged buyout funds or venture capital funds). We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the borrower, a public offering of the borrower s stock or by exercising our right to require the borrower to repurchase our warrants, though there can be no assurance that we will always have these rights. We lend to borrowers that need funds to finance growth, restructure their balance sheets or effect a change of control. We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

In July 2012, the SEC granted us an exemptive order that expanded our ability, under certain circumstances, to co-invest with Gladstone Capital and any future BDC or closed-end management investment company that is advised (or sub-advised if it controls the fund) by the Adviser or any combination of the foregoing subject to the conditions in the SEC s order. We believe this ability to co-invest has enhanced and will continue to enhance our ability to further our investment objectives and strategies. Pursuant to this exemptive order, we co-invested with Gladstone Capital in one new proprietary investment during the three months ended December 31, 2014, as discussed under *Investment Highlights* .

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We are externally managed by the Adviser, an SEC registered investment adviser, and an affiliate of ours, pursuant to the Advisory Agreement. The Adviser manages our investment activities. We have also entered into the Administration Agreement with the Administrator, an affiliate of ours and the Adviser, whereby we pay separately for administrative services.

Our common stock, Series A Term Preferred Stock and Series B Term Preferred Stock are traded on NASDAQ under the symbols GAIN , GAINP , and GAINO , respectively.

Business Environment

The strength of the global economy and the U.S. economy, in particular, continues to be uncertain, although economic conditions generally appear to be improving, albeit slowly. The impacts from the 2008 recession in general, and the resulting disruptions in the capital markets in particular, have had lingering effects on our liquidity options and have increased our cost of debt and equity capital. Many of our portfolio companies, as well as those small and medium-sized companies that we evaluate for prospective investment, may remain vulnerable to the impacts of the uncertain economy. Concerns linger over the ability of the U.S. Congress to pass additional debt ceiling legislation prior to March 2015, given the budget impasse that resulted in the partial shutdown of the U.S. government in October 2013. Uncertain political, regulatory and economic conditions, including the current volatility of oil and gas demand and prices, could disproportionately impact some of the industries in which we have invested, causing us to be more vulnerable to losses in our portfolio, resulting in an increase in the number of our non-performing assets and a decrease in the fair market value of our portfolio.

We do not know if general economic conditions will continue to improve or if adverse conditions will recur and we do not know the full extent to which the inability of the U.S. government to address its fiscal condition in the near and long term will affect us. If market instability persists or intensifies, we may experience difficulty in successfully raising and investing capital. In summary, we believe we are in a prolonged economic recovery; however, we do not know the full extent to which the impact of the current economic conditions will affect us or our portfolio companies.

Portfolio Activity

While conditions remain challenging, we are seeing many new investment opportunities consistent with our investment strategy of providing a combination of debt and equity in support of management and sponsor-led buyouts of small and medium-sized companies in the U.S. During the three months ended December 31, 2014, we invested a total of $43.3 million in two new deals, resulting in a net expansion in our overall portfolio to 32 portfolio companies and an increase quarter over quarter of 13.6% in our portfolio at fair value. These new investments, along with our capital raising efforts discussed below, have allowed us to invest $375.3 million in 23 new debt and equity deals since October 2010.

During the three and nine months ended December 31, 2014, our new investments provided a weighted average current pay interest rate of 12.4% and 12.7%, a going in weighted average leverage of 5.0x and 4.7x, and a current weighted average life of 4.4 and 4.5 years, respectively, all based on the originating principal balances. For the three and nine months ended December 31, 2014, our new investments consisted of approximately 77.9% and 77.7% senior term loans and 22.1% and 22.3% equity investments, based on the originating principal balances, respectively.

These new investments, as well as the majority of our debt securities in our portfolio, have a success fee component, which enhances the yield on our debt investments. Unlike PIK income, we generally do not recognize success fees as income until they are received in cash. Due to their contingent nature, there are no guarantees that we will be able to collect any or all of these success fees or know the timing of such collections. As a result, as of December 31, 2014, we had unrecognized success fees of $23.5 million, or $0.89 per common share. Consistent with accounting principles generally accepted in the U.S. (GAAP), we have not recognized our success fee receivable on our balance sheet or our income statement.

The improved investing environment has presented us with an opportunity to realize gains and other income from four management-supported buyout liquidity events since June 2010, and in the aggregate, we have generated $54.5 million in realized gains and $13.1 million in other income, for a total increase to our net assets of $67.6 million. We believe each of these transactions was an equity-oriented investment success and exemplifies our investment strategy of striving to achieve returns through current income on the debt portion of our investments and capital gains from the equity portion. These successes, in part, enabled us to increase the monthly distribution 50.0% since March 2011, allowed us to declare and pay a $0.03 per common share one-time special distribution in fiscal year 2012, a $0.05 per common share one-time special distribution in November 2013, and a $0.05 per common share one-time special distribution in December 2014.

With the four liquidity events that resulted in realized gains since June 2010, we have nearly overcome our cumulative realized losses since inception that were primarily incurred during the recession and in connection with the sale of performing loans at a realized loss to pay off a former lender. We took the opportunity during the fiscal year ended March 31, 2014, to strategically sell our investments in two of our portfolio companies, ASH Holding Corp. (ASH) and Packerland Whey Products, Inc. (Packerland) to existing members of their management teams and other existing owners, respectively, which resulted in realized losses of $11.4 million and $1.8 million, respectively, as well as the write off our equity investments in Noble, which resulted in a realized loss of $3.4 million. These sales and write off, while at a realized loss, were accretive to our NAV in aggregate by $5.7 million, reduced our distribution requirements related to our realized gains and reduced the amount of our debt investments on non-accrual status.

Capital Raising Efforts

Despite the challenges that have existed in the economy for the past several years, we have been able to meet our capital needs through extensions and increases to our Credit Facility and by accessing the capital markets in the form of public offerings of stock. We have successfully extended our Credit Facility s revolving period multiple times, most recently to June 2017 and increased the commitment from $60.0 million to $185.0 million, and in November 2014, we issued approximately 1.7 million shares of our Series B Term Preferred Stock for gross proceeds of $41.4 million. Refer to *Liquidity and Capital Resources Equity Term Preferred Stock* for further discussion of our term preferred stock and *Liquidity and Capital Resources Revolving Credit Facility* for further discussion of our Credit Facility.

Although we were able to access the capital markets during 2014, we believe market conditions continue to affect the trading price of our common stock and thus our ability to finance new investments through the issuance of equity. On March 3, 2015, the closing market price of our common stock was $7.80, which represented a 8.8% discount to our December 31, 2014 NAV per share of $8.55. When our stock trades below NAV, our ability to issue equity is constrained by provisions of the 1940 Act, which generally prohibit the issuance and sale of our common stock at an issuance price below the then current NAV per share without stockholder approval, other than through sales to our then-existing stockholders pursuant to a rights offering.

At our 2014 Annual Meeting of Stockholders held on August 7, 2014, our stockholders approved a proposal authorizing us to issue and sell shares of our common stock at a price below our then current NAV per share, subject to certain limitations, including that the number of shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale, provided that our Board of Directors makes certain determinations prior to any such sale. This August 2014 stockholder authorization is in effect for one year from the date of stockholder approval. We sought and obtained stockholder approval concerning a similar proposal at the Annual Meeting of Stockholders held in August 2012, and with our Board of Directors subsequent approval, we issued shares of our common stock in October and November 2012 at a price per share below the then current NAV per share. The resulting proceeds, in part, have allowed us to grow the portfolio by making new investments, generate additional income through these new investments, provide us additional equity capital to help ensure continued compliance with regulatory tests and increase our debt capital while still complying with our applicable debt-to-equity ratios. Refer to *Liquidity and Capital Resources Equity Common Stock* for further discussion of our common stock

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Regulatory Compliance

Our ability to seek external debt financing, to the extent that it is available under current market conditions, is further subject to the asset coverage limitations of the 1940 Act, which require us to have an asset coverage ratio (as defined in Section 18(h) of the 1940 Act), of at least 200.0% on our senior securities representing indebtedness and our senior securities that are stock, which we refer to collectively as Senior Securities. As of December 31, 2014, our asset coverage ratio was 220.7%. Our status as a RIC under Subchapter M of the Code, in addition to other requirements, also requires us, at the close of each quarter of the taxable year, to meet an asset diversification test, which requires that at least 50.0% of the value of our assets consists of cash, cash items, U.S. government securities or certain other qualified securities (the 50.0% threshold). In the past, we have obtained this ratio by entering into a short-term loan at quarter end to purchase qualifying assets; however, a short term loan was not necessary in or for the nine months ended December 31, 2014. If the composition of our assets is not above the required 50.0% threshold by a significant margin at the end of any calendar quarter, we may have to obtain short-term loans to satisfy the 50% threshold. When deployed, this strategy, while allowing us to satisfy the 50.0% threshold for our RIC status, limits our ability to use increased debt capital to make new investments, due to our asset coverage ratio limitations under the 1940 Act.

Investment Highlights

During the nine months ended December 31, 2014, we disbursed $67.2 million in new debt and equity investments and extended $12.1 million of investments to existing portfolio companies through revolver draws or additions to term notes. From our initial public offering in June 2005 through December 31, 2014, we have made 228 investments in 111 companies for a total of approximately $1.0 billion, before giving effect to principal repayments on investments and divestitures.

Investment Activity

During the nine months ended December 31, 2014, the following significant transactions occurred:

In May 2014, NDLI Acquisition Inc. completed the purchase of certain of Noble s assets out of bankruptcy. The resulting entity was listed as a portfolio company under NDLI Inc. on our accompanying *Condensed Consolidated Schedules of Investments* beginning in the period ended June 30, 2014.

In August 2014, we made a $1.8 million equity investment in Roanoke Industries Corp. (Roanoke), formerly known as Tread Real Estate Corp., which purchased the building owned by another one of our portfolio companies, Tread Corp. (Tread). This building has subsequently been leased back to Tread. The resulting entity was listed as a portfolio company under Roanoke Industries Corp. on our accompanying *Condensed Consolidated Schedules of Investments* beginning in the period ended December 31, 2014.

In September 2014, we invested $20.2 million in Cambridge Sound Management, Inc. (Cambridge) through a combination of debt and equity. Cambridge, based in Waltham, Massachusetts, is the developer of sound systems and solutions.

In October 2014, we invested $24.4 million in Old World Christmas, Inc. (Old World) through a combination of debt and equity. Old World, headquartered in Spokane, Washington, is a designer and distributor of an extensive collection of blown glass Christmas ornaments, table top figurines, vintage-style light covers and nostalgic greeting cards into the independent gift channel.

In December 2014, we invested $19.6 million in B+T Group Acquisition Inc. (B+T) through a combination of debt and equity. B+T, headquartered in Tulsa, Oklahoma, is a full-service provider of structural engineering, construction, and technical services to the wireless tower industry for tower upgrades and modifications. Gladstone Capital also participated as a co-investor by providing $8.4 million of debt and equity financing at the same price and terms as our investment.

In December 2014, B-Dry, LLC (B-Dry) was restructured, resulting in $2.0 million of senior term debt being converted into preferred equity.

Recent Developments

Executive Officers

On January 9, 2015, David Watson resigned as the Company s chief financial officer and treasurer. On January, 13, 2015, our Board of Directors accepted Mr. Watson s resignation and appointed Melissa Morrison, Gladstone Capital s chief financial officer and treasurer, as the Company s chief financial officer and treasurer.

Term Preferred Stock Offering

In November 2014, we completed a public offering of 1,656,000 shares of our Series B Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $41.4 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $39.7 million. We incurred $1.7 million in total offering costs related to these transactions, which have been recorded as deferred financing costs on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and is being amortized over the period ending December 31, 2021, the mandatory redemption date. Refer to *Liquidity and Capital Resources Equity Term Preferred Stock* for further discussion of our term preferred stock.

Credit Facility Extension and Expansion

On June 26, 2014, we, through our wholly-owned subsidiary, Gladstone Business Investment (Business Investment), entered into an amendment to our Credit Facility originally entered into on April 30, 2013 to extend the revolving period and reduce the interest rate of our revolving line of credit. The revolving period was extended 14 months to June 26, 2017. We incurred fees of $0.4 million in connection with this amendment, which are being amortized through our Credit Facility s revolver period end date of June 26, 2017.

On September 19, 2014, we further increased our borrowing capacity under our Credit Facility from $105.0 million to $185.0 million (with a total commitment up to $250.0 million through additional commitments of existing or new committed lenders) by entering into Joinder Agreements pursuant to our Credit Facility, by and among Business Investment, Key Equipment, the Adviser and each of East West Bank, Manufacturers and Traders Trust, Customers Bank and Talmer Bank and Trust. We incurred fees of $1.3 million in connection with this expansion, which are being amortized through our Credit Facility s revolver period end date of June 26, 2017. Refer to *Liquidity and Capital Resources Revolving Credit Facility* for further discussion of our Credit Facility.

Registration Statement

On June 3, 2014, we filed Post-Effective Amendment No. 3 to the registration statement on Form N-2 (File No. 333-181879), and subsequently filed a Post-Effective Amendment No. 4 to the registration statement on September 2, 2014, which the SEC declared effective on September 4, 2014. The registration statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common or preferred stock, including through a combined offering of two or more of such securities. We currently have the ability to issue up to $225.6 million in securities under the registration statement.

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RESULTS OF OPERATIONS

Comparison of the Three Months Ended December 31, 2014, to the Three Months Ended December 31, 2013

	For the Three Months Ended December 31,			
	2014	2013	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income	**$ 9,732**	$ 7,593	$ 2,139	28.2%
Other income	**1,830**	1,103	727	65.9
Total investment income	**11,562**	8,696	2,866	33.0
EXPENSES				
Base management fee	**1,927**	1,515	412	27.2
Incentive fee	**1,460**	1,100	360	32.7
Administration fee	**226**	239	(13)	(5.4)
Interest and dividend expense	**2,127**	1,108	1,019	92.0
Amortization of deferred financing costs	**404**	262	142	54.2
Other	**446**	852	(406)	(47.7)
Expenses before credits from Adviser	**6,590**	5,076	1,514	29.8
Credits to Adviser fees	**(867)**	(782)	85	10.9
Total expenses net of credits to fees	**5,723**	4,294	1,429	33.3
NET INVESTMENT INCOME	**5,839**	4,402	1,437	32.6
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized loss on investments	**(209)**	(13,115)	12,906	98.4
Net realized loss on other		(29)	29	100.0
Net unrealized appreciation (depreciation) of investments	**1,959**	(2,310)	4,269	NM
Net unrealized depreciation of other		366	(366)	(100.0)
Net realized and unrealized gain (loss)	**1,750**	(15,088)	16,838	NM
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	**$ 7,589**	$ (10,686)	$ 18,275	NM
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	**$ 0.22**	$ 0.17	$ 0.05	29.4%
Net increase (decrease) in net assets resulting from operations	**$ 0.29**	$ (0.40)	$ 0.69	172.5%

NM = Not Meaningful

Investment Income

Total investment income increased by 33.0% for the three months ended December 31, 2014, as compared to the prior year period. This increase was due to an increase in both other income and also interest income, which resulted from an increase in the size of our portfolio during the three months ended December 31, 2014.

Interest income from our investments in debt securities increased 28.2% for the three months ended December 31, 2014, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the three months ended December 31, 2014, was approximately $307.7 million, compared to approximately $237.5 million for the prior year period. This increase was primarily due to approximately $95.9 million in new investments originated after December 31, 2013, including Head Country Inc. (Head Country), Edge Adhesives Holdings, Inc. (Edge), Roanoke, Cambridge, Old World, and B+T.

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At December 31, 2014, loans of one portfolio company, Tread, were on non-accrual status, with an aggregate weighted average principal balance of $11.0 million during the three months ended December 31, 2014. Our loans to Tread on non-accrual status had an aggregate weighted average principal balance of $14.1 million during the three months ended December 31, 2013. The weighted average yield on our interest-bearing investments was 12.5% and 12.7% for the three months ended December 31, 2014 and 2013, excluding cash and cash equivalents and receipts recorded as other income, respectively. The weighted average yield varies from period to period, based on the current stated interest rate on interest-bearing investments.

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

	As of December 31, 2014		Three months ended December 31, 2014	
Portfolio Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
SOG Specialty Knives and Tools, LLC	$ 24,940	6.4%	$ 1,170	10.1%
Old World Christmas, Inc.(A)	24,380	6.2	513	4.4
Acme Cryogenics, Inc.	22,942	5.8	426	3.7
Cambridge Sound Management, LLC(B)	22,556	5.7	511	4.5
Funko, LLC	19,011	4.8	249	2.2
Subtotal five largest investments	**113,829**	**28.9**	**2,869**	**24.9**
Other portfolio companies	280,316	71.1	8,693	75.1
Total investment portfolio	**$ 394,145**	**100.0%**	**$ 11,562**	**100.0%**

	As of December 31, 2013		Three months ended December 31, 2013	
Portfolio Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
Acme Cryogenics, Inc.	$ 27,719	9.5%	$ 426	4.9%
SOG Specialty Knives and Tools, LLC	27,271	9.4	670	7.7
Galaxy Tool Holding Corp.	19,743	6.8	535	6.2
Alloy Die Casting Corp.(A)	16,320	5.6	421	4.8
Schylling Investments, LLC	16,160	5.6	532	6.1
Subtotal five largest investments	**107,213**	**36.9**	**2,584**	**29.7**
Other portfolio companies	183,514	63.1	6,112	70.3
Total investment portfolio	**$ 290,727**	**100.0%**	**$ 8,696**	**100.0%**

(A) New investment during the applicable period.
(B) Investment added in September 2014.

Other income increased 65.9% from the prior year period. During the three months ended December 31, 2014, other income primarily consisted of $1.3 million of dividends received from Mathey Investments, Inc. (Mathey) and $0.5 million resulting from prepayments of success fees received from SOG Specialty Knives and Tools, LLC (SOG), respectively. During the three months ended December 31, 2013, other income primarily consisted of $0.2 million and $0.8 million in success fee income resulting from debt investment repayments received from Cavert II Holding Corp. (Cavert) and Channel Technologies Group, LLC (Channel), respectively.

Expenses

Total expenses, excluding any voluntary, irrevocable and non-contractual credits from the Adviser to the base management and incentive fees, increased 29.8% for the three months ended December 31, 2014, as compared to the prior year period, primarily due to an increase in the base management fee, interest and dividend expense, and incentive fee as compared to the prior year period. This was partially offset by a decrease in other expenses for the three months ended December 31, 2014, as compared to the prior year period.

The base management fee increased for the three months ended December 31, 2014, as compared to the prior year period, as a result of the increased size of our portfolio over the respective periods. An incentive fee of $1.5 million was earned by the Adviser during the three months ended December 31, 2014, compared to an incentive fee of $1.1 million for the prior year period. The base management fees, incentive fees, and their related unconditional and irrevocable voluntary credits are computed quarterly, as described under Investment Advisory and Management Agreement in Note 4 of the notes to our accompanying *Condensed Consolidated Financial Statements* and are summarized in the following table:

	Three Months Ended December 31,	
	2014	**2013**
Average gross assets subject to base management fee[(A)]	**$ 385,400**	$ 303,000
Multiplied by prorated annual base management fee of 2.0%	**0.5%**	0.5%
Base management fee[(B)]	**1,927**	1,515
Other credits to Adviser fees[(B)]	**(867)**	(782)
Net base management fee	**$ 1,060**	$ 733
Incentive fee[(B)]	**$ 1,460**	$ 1,100

(A) Average gross assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.

(B) Reflected, on a gross basis, as a line item on our accompanying *Condensed Consolidated Statement of Operations* .

Interest and dividend expense increased 92.0% for the three months ended December 31, 2014, as compared to the prior year period , primarily due to increased average borrowings under our Credit Facility. The weighted average balance outstanding on our Credit Facility during the three months ended December 31, 2014, was $97.6 million, as compared to $19.5 million in the prior year period. The increase in average borrowings under our Credit Facility was partially offset by the decrease in interest rate due to an amendment of our Credit Facility that occurred in June 2014. The dividend expense also increased with the offering of our Series B Term Preferred Stock in November 2014. We paid distributions on the Series B Term Preferred Stock for the pro-rated month of November 2014 and the full month of December 2014, which distribution represented a $0.4 million increase from the prior year period, when the Series B Term Preferred Stock was not yet outstanding.

Other expenses decreased 47.7% for the three months ended December 31, 2014, as compared to the prior year period, primarily due to a decrease in the excise tax expense of $0.1 million and also a decrease in legal expenses, as compared to the prior year period.

Realized and Unrealized (Loss) Gain on Investments

Realized Loss

During the three months ended December 31, 2014, we recorded a realized loss on investments of $0.2 million relating to post-closing adjustments on previous investment exits. During the three months ended December 31, 2013, we recorded a net realized loss of $13.1 million related to the ASH and Packerland exits.

Unrealized Appreciation (Depreciation)

During the three months ended December 31, 2014, we recorded net unrealized appreciation of investments in the aggregate amount of $2.0 million.

The realized loss and unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2014, were as follows:

	Three months ended December 31, 2014		
Portfolio Company	**Realized Loss**	**Unrealized Appreciation (Depreciation)**	**Net Gain (Loss)**
Funko, LLC	$	$ 3,648	$ 3,648
Cambridge Sound Management, LLC		3,056	3,056
Drew Foam Company, Inc.		1,475	1,475
Ginsey Home Solutions, Inc.		1,450	1,450
Tread Corp.		1,290	1,290
Head Country Inc.		1,123	1,123
Alloy Die Casting Corp.		973	973
SOG Specialty K&T, LLC		951	951
Mathey Investments, Inc.		440	440
Danco Acquisition Corp.		203	203
Frontier Packaging, Inc.		(231)	(231)
Edge Adhesives Holdings, Inc.		(451)	(451)
Jackrabbit, Inc.		(460)	(460)
Meridian Rack & Pinion, Inc.		(678)	(678)
NDLI Inc.		(709)	(709)
Country Club Enterprises, LLC		(784)	(784)
Channel Technologies Group, LLC		(831)	(831)
Mitchell Rubber Products, Inc.		(1,883)	(1,883)
B-Dry, LLC		(2,517)	(2,517)
Acme Cryogenics, Inc.		(4,197)	(4,197)
Other, net (<$250 Net)	(209)	91	(118)
Total	**$ (209)**	**$ 1,959**	**$ 1,750**

The primary reason for the change in our net unrealized appreciation of $2.0 million for the three months ended December 31, 2014, was an increase in the equity valuation of two of our portfolio companies, Funko, LLC (Funko) and Cambridge, due to an increase in company performance and, to a lesser extent, an increase in certain comparable multiples used to estimate the fair value of our investments. This was partially offset by decreased performance in several of our portfolio companies.

During the three months ended December 31, 2013, we recorded net unrealized depreciation of investments in the aggregate amount of $2.3 million, which included the reversal of $13.2 million in aggregate unrealized depreciation, primarily related to the sales of ASH and Packerland. Excluding reversals, we had $15.5 million in net unrealized depreciation of investments for the three months ended December 31, 2013.

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The realized losses and gains and unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2013, were as follows:

	Three months ended December 31, 2013			
Portfolio Company	**Realized (Loss) Gain**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized Depreciation (Appreciation)**	**Net Gain (Loss)**
Auto Safety House, LLC[(A)]	$ (11,402)	$ 4,938	$ 11,410	$ 4,946
SOG Specialty K&T, LLC		3,140		3,140
Quench Holdings Corp.		2,864		2,864
Mitchell Rubber Products, Inc.		951		951
Packerland Whey Products, Inc.[(B)]	(1,754)		2,500	746
Cavert II Holding Corp		58	(175)	(117)
Drew Foam Companies, Inc.		(480)		(480)
B-Dry, LLC		(502)		(502)
Channel Technologies Group, LLC		(232)	(583)	(815)
SBS, Industries, LLC		(1,606)		(1,606)
Country Club Enterprises, LLC		(1,777)		(1,777)
Mathey Investments, Inc.		(1,806)		(1,806)
Star Seed, Inc.		(1,862)		(1,862)
Precision Southeast, Inc.		(2,168)		(2,168)
Ginsey Holdings, Inc.		(2,229)		(2,229)
Jackrabbit, Inc.		(3,245)		(3,245)
Noble Logistics, Inc.		(3,448)		(3,448)
Schylling Investments, LLC		(3,840)		(3,840)
Galaxy Tool Holding Corp.		(4,413)		(4,413)
Other, net (<$250 Net)	41	195		236
Total	**$ (13,115)**	**$ (15,462)**	**$ 13,152**	**$ (15,425)**

(A) ASH equity investment was sold in October 2013.
(B) Packerland investment was sold in November 2013.

Excluding reversals, the primary changes in our net unrealized depreciation of $15.5 million for the three months ended December 31, 2013, were due to decreased equity valuations in several of our portfolio companies, primarily due to a decrease in certain comparable multiples used to estimate the fair value of our investments and a decrease in portfolio company performance.

Over our entire investment portfolio, we recorded approximately $1.7 million of net unrealized depreciation on our debt positions and $3.7 million of net unrealized appreciation on our equity holdings for the three months ended December 31, 2014. At December 31, 2014, the fair value of our investment portfolio was less than our cost basis by approximately $63.2 million, as compared to $65.2 million at September 30, 2014, representing net unrealized appreciation of $2.0 million for the three months ended December 31, 2014. We believe that our aggregate investment portfolio is valued at a depreciated value due to the lingering effects of the recent recession on the performance of certain of our portfolio companies. Our entire portfolio was fair valued at 86.2% of cost as of December 31, 2014. The unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution.

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Unrealized Gain on Other

Net Unrealized Depreciation on Borrowings

There was no unrealized appreciation or depreciation of our Credit Facility recognized for the three months ended December 31, 2014. During the three months ended December 31, 2013, there was net unrealized depreciation of $0.4 million on our Credit Facility. Our Credit Facility was fair valued at $95.8 million and $61.7 million as of December 31 and March 31, 2014, respectively.

Comparison of the Nine Months Ended December 31, 2014, to the Nine Months Ended December 31, 2013

	Nine Months Ended December 31,			
	2014	**2013**	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income	**$ 26,706**	$ 22,481	$ 4,225	18.8%
Other income	**3,764**	4,972	(1,208)	(24.3)
Total investment income	**30,470**	27,453	3,017	11.0
EXPENSES				
Base management fee	**5,337**	4,625	712	15.4
Incentive fee	**3,726**	2,822	904	32.0
Administration fee	**670**	638	32	5.0
Interest and dividend expense	**5,010**	3,607	1,403	38.9
Amortization of deferred financing fees	**940**	761	179	23.5
Other	**1,740**	1,964	(224)	(11.4)
Expenses before credits from Adviser	**17,423**	14,417	3,006	20.9
Credits to Adviser fees	**(1,855)**	(1,627)	(228)	(14.0)
Total expenses net of credits to fee	**15,568**	12,790	2,778	21.7
NET INVESTMENT INCOME	**14,902**	14,663	239	1.6
REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized (loss) gain on investments	**(221)**	11,689	(11,910)	NM
Net realized loss on other		(29)	29	100.0
Net unrealized appreciation (depreciation) of investments	**5,924**	(29,400)	35,324	NM
Net unrealized depreciation of other	**451**	811	(360)	(44.4)
Net realized and unrealized gain (loss)	**6,154**	(16,929)	23,083	NM
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	**$ 21,056**	$ (2,266)	$ 23,322	1,029.2%

BASIC AND DILUTED PER COMMON SHARE:							
Net investment income	**$**	**0.56**	$	0.55	$	0.01	1.8%
Net increase (decrease) in net assets resulting from operations	**$**	**0.80**	$	(0.09)	$	0.89	988.9%

NM = Not Meaningful

Total investment income increased by 11.0% for the nine months ended December 31, 2014, as compared to the prior year period. This increase was primarily due an overall increase in interest income in the nine months ended December 31, 2014, as a result of an increase in the size of our loan to portfolio during the nine months ended December 31, 2014. This was partially offset by a decrease in other income during the nine months ended December 31, 2014 as compared to the prior year period, due to success fee and dividend income resulting from our exit from Venyu Solutions, Inc. (Venyu) during the nine months ended December 31, 2013.

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Interest income from our investments in debt securities increased 18.8% for the nine months ended December 31, 2014, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the nine months ended December 31, 2014, was approximately $282.1 million, compared to approximately $236.7 million for the prior year period. This increase was primarily due to approximately $95.9 million in new investments originated after December 31, 2013, including Head Country, Edge, Roanoke, Cambridge, Old World, and B+T.

At December 31, 2014, loans to one portfolio company, Tread, were on non-accrual status, with an aggregate weighted average principal balance of $11.6 million during the nine months ended December 31, 2014. As of December 31, 2013, our loans to Tread were on non-accrual status. ASH, which was on non-accrual status as of September 30, 2013, was sold to certain members of its existing management team during the three months ended December 31, 2013. As a result of the sale, we retained a $5.0 million accruing revolving credit facility in ASH, which was no longer on non-accrual status as of December 31, 2013. The non-accrual aggregate weighted average principal balance was $22.4 million during the nine months ended December 2013. The weighted average yield on our interest-bearing investments was 12.6% for the nine months ended December 31, 2014 and 2013, excluding cash and cash equivalents and receipts recorded as other income. The weighted average yield varies from period to period, based on the current stated interest rate on interest-bearing investments.

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

	As of December 31, 2014		Nine Months Ended December 31, 2014	
Portfolio Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
SOG Specialty Knives and Tools, LLC	$ 24,940	6.4%	$ 2,536	8.3%
Old World Christmas, Inc.(A)	24,380	6.2	513	1.7
Acme Cryogenics, Inc.	22,942	5.8	1,274	4.2
Cambridge Sound Management, LLC(A)	22,556	5.7	517	1.7
Funko, LLC	19,011	4.8	833	2.7
Subtotal five largest investments	**113,829**	**28.9**	**5,673**	**18.6**
Other portfolio companies	280,316	71.1	24,797	81.4
Total investment portfolio	**$ 394,145**	**100.0%**	**$ 30,470**	**100.0%**

	As of December 31, 2013		Nine Months Ended December 31, 2013	
Portfolio Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
Acme Cryogenics, Inc.	$ 27,719	9.5%	$ 1,274	4.6%
SOG Specialty Knives and Tools, LLC	27,271	9.4	2,002	7.3
Galaxy Tool Holding Corp.	19,743	6.8	1,601	5.8
Alloy Die Casting Corp.(A)	16,320	5.6	421	1.5
Schylling Investments, LLC(A)	16,160	5.6	844	3.1

Subtotal five largest investments	**107,213**	**36.9**	**6,142**	**22.3**
Other portfolio companies	183,514	63.1	21,311	77.7
Total investment portfolio	**$ 290,727**	**100.0%**	**$ 27,453**	**100.0%**

(A) New investment during the applicable period.

Other income decreased 24.3% from the prior year period. During the nine months ended December 31, 2014, other income primarily consisted of $2.3 million of dividend income received from Mathey and $0.5 million of

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prepayments of success fees from SOG. During the nine months ended December 31, 2013, other income primarily consisted of a combined $3.3 million in success fee and dividend income received in connection with the exit of Venyu and $0.8 million and $0.2 million in success fee income resulting from prepayments received from Channel and Cavert, respectively.

Expenses

Total expenses, excluding any voluntary, irrevocable and non-contractual credits to the base management and incentive fees, increased 20.9% for the nine months ended December 31, 2014, as compared to the prior year period, primarily due to an increase in the base management fee, incentive fee, and interest and dividend expense, as compared to the prior year period.

The base management fee increased for the nine months ended December 31, 2014, as compared to the prior year period, as a result of the increased size of our portfolio over the respective periods. Additionally, an incentive fee of $3.7 million was earned by the Adviser during the nine months ended December 31, 2014, compared to $2.8 million for the prior year period. The base management fees, incentive fees, and their related unconditional and irrevocable voluntary credits are computed quarterly, as described under Investment Advisory and Management Agreement in Note 4 of the notes to our accompanying *Condensed Consolidated Financial Statements* and are summarized in the following table:

	Nine Months Ended December 31,	
	2014	**2013**
Average gross assets subject to base management fee[(A)]	**$ 355,800**	$ 308,333
Multiplied by prorated annual base management fee of 2.0%	**1.5%**	1.5%
Base management fee[(B)]	**5,337**	4,625
Other credits to Adviser fees[(B)]	**(1,855)**	(1,627)
Net base management fee	**$ 3,482**	$ 2,998
Incentive fee[(B)]	**$ 3,726**	$ 2,822

(A) Average gross assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.

(B) Reflected, on a gross basis, as a line item on our accompanying *Condensed Consolidated Statement of Operations.*

Interest and dividend expense increased 38.9% for the nine months ended December 31, 2014, as compared to the prior year period , primarily due to increased average borrowings under our Credit Facility. The weighted average balance outstanding on our Credit Facility during the nine months ended December 31, 2014, was $74.4 million, as compared to $31.1 million in the prior year period. The increase in average borrowings under our Credit Facility was partially offset by the decrease in interest rate due to an amendment of our Credit Facility that occurred in June 2014.

The dividend expense also increased with the offering of our Series B Term Preferred Stock in November 2014. We paid distributions on the Series B Term Preferred Stock for the pro-rated month of November 2014 and the full month of December 2014, which distribution represented a $0.4 million increase from the prior year period, when the Series B Term Preferred Stock was not yet outstanding.

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Realized and Unrealized (Loss) Gain on Investments

Realized (Loss) Gain

During the nine months ended December 31, 2014, we recorded a realized loss on investments of $0.2 million relating to post-closing adjustments on previous investment exits. During the nine months ended December 31, 2013, we recorded a net realized gain of $11.7 million related to the $24.8 million gain on the Venyu sale, partially offset by the realized losses of $11.4 million and $1.7 million related to the equity sales of ASH and Packerland, respectively.

Unrealized Appreciation (Depreciation)

During the nine months ended December 31, 2014, we recorded net unrealized appreciation of investments in the aggregate amount of $5.9 million.

The realized loss and unrealized appreciation (depreciation) across our investments for the nine months ended December 31, 2014, were as follows:

	Nine months ended December 31, 2014		
Portfolio Company	**Realized Loss**	**Unrealized Appreciation (Depreciation)**	**Net Gain (Loss)**
Funko, LLC	$	$ 7,093	$ 7,093
Jackrabbit, Inc.		5,904	5,904
NDLI Inc.		3,755	3,755
Cambridge Sound Management, LLC		3,056	3,056
Mathey Investments, Inc.		2,749	2,749
SBS, Industries, LLC		1,894	1,894
Drew Foam Company, Inc.		1,893	1,893
Alloy Die Casting Corp.		1,583	1,583
Tread Corp.		1,007	1,007
Edge Adhesives Holdings, Inc.		416	416
Venyu Solutions, Inc.[(A)]	(220)		(220)
Quench Holdings Corp.		(303)	(303)
Meridian Rack & Pinion, Inc.		(557)	(557)
Head Country Inc.		(1,120)	(1,120)
Country Club Enterprises, LLC		(1,565)	(1,565)
SOG Specialty K&T, LLC		(1,699)	(1,699)
Channel Technologies Group, LLC		(1,843)	(1,843)
Danco Acquisition Corp.		(2,308)	(2,308)
B-Dry, LLC		(2,778)	(2,778)
Galaxy Tool Holding Corp.		(2,992)	(2,992)
Acme Cryogenics, Inc.		(3,958)	(3,958)
Mitchell Rubber Products, Inc.		(4,166)	(4,166)
Other, net (<$250 Net)	(1)	(137)	(138)
Total	$ (221)	$ 5,924	$ 5,703

(A) Venyu was sold in August 2013.

The primary changes in our net unrealized appreciation for the nine months ended December 31, 2014, were due to an increase in equity valuations in several of our portfolio companies, primarily due to increased portfolio company performance and increases in certain comparable multiples used to estimate the fair value of our investments.

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During the nine months ended December 31, 2013, we recorded net unrealized depreciation of investments in the aggregate amount of $29.4 million, which included the reversal of a net $4.2 million in net unrealized appreciation, related to the sale of Venyu, ASH, and Packerland, and debt repayments of Cavert and Channel. Excluding reversals, we had $25.2 million in net unrealized depreciation for the nine months ended December 31, 2013.

The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended December 31, 2013, were as follows:

	Nine months ended December 31, 2013			
Portfolio Company	**Realized Gain (Loss)**	**Unrealized Appreciation (Depreciation)**	**Reversal of Unrealized (Appreciation) Depreciation**	**Net Gain (Loss)**
Venyu Solutions, Inc.[(A)]	$ 24,804	$ (1,596)	$ (17,374)	$ 5,834
Auto Safety House, LLC[(B)]	(11,402)	4,938	11,410	4,946
Quench Holdings Corp.		2,824		2,824
Channel Technologies Group, LLC		2,921	(583)	2,338
Frontier Packaging, Inc.		1,734		1,734
Funko, LLC		1,043		1,043
Packerland Whey Products, Inc.[(C)]	(1,754)	(369)	2,500	377
Cavert II Holding Corp		145	(175)	(30)
Mitchell Rubber Products, Inc.		(602)		(602)
Star Seed, Inc.		(936)		(936)
Tread Corp.		(1,110)		(1,110)
Galaxy Tool Holding Corp.		(1,133)		(1,133)
Mathey Investments, Inc.		(1,697)		(1,697)
SOG Specialty K&T, LLC		(2,551)		(2,551)
Drew Foam Company, Inc.		(2,645)		(2,645)
Precision Southeast, Inc.		(3,227)		(3,227)
Noble Logistics, Inc.		(3,832)		(3,832)
Schylling Investments, LLC		(3,840)		(3,840)
B-Dry, LLC		(4,013)		(4,013)
SBS, Industries, LLC		(4,414)		(4,414)
Ginsey Home Solutions, Inc.		(6,731)		(6,731)
Other, net (<$250 Net)	41	(87)		(46)
Total	**$ 11,689**	**$ (25,178)**	**$ (4,222)**	**$ (17,711)**

(A) Venyu was sold in August 2013.
(B) ASH equity investment was sold in October 2013.
(C) Packerland equity investment was sold in November 2013.

The primary changes in our net unrealized depreciation for the nine months ended December 31, 2013, were due to decreased equity valuations in several of our portfolio companies, primarily due to decreased portfolio company performance and decreases in certain comparable multiples used to estimate the fair value of our investments.

Over our entire investment portfolio, we recorded, in the aggregate, approximately $1.7 million and $4.2 million of net unrealized appreciation on our debt and equity investments, respectively, for the nine months ended December 31, 2014. As of December 31, 2014, the fair value of our investment portfolio was less than our cost basis by approximately $63.2 million, as compared to $69.1 million at March 31, 2014, representing net unrealized appreciation of $5.9 million for the nine months ended December 31, 2014. We believe that our aggregate investment portfolio is valued at a depreciated value due to the lingering effects of the recent recession on the performance of certain of our portfolio companies. Our entire portfolio was fair valued at 86.2% of cost as of December 31, 2014. The unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution.

Realized and Unrealized (Loss) Gain on Other

Realized Loss on Interest Rate Cap

We recorded no realized gains (losses) on interest rate caps during the nine months ended December 31, 2014. For the nine months ended December 31, 2013, we recorded a net realized loss of $29, due to the expiration of our interest rate cap agreement.

Net Unrealized Depreciation (Appreciation) on Borrowings

For the nine months ended December 31, 2014 and 2013, we recorded $0.5 million and $0.8 million, respectively, of net unrealized depreciation.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Net cash used in operating activities for the nine months ended December 31, 2014, was approximately $56.6 million, as compared to $11.3 million during the nine months ended December 31, 2013. Even though we disbursed $100.1 million in the prior year period to purchase investments compared to $79.3 million in the current period, the prior year period had significant cash inflows from the sale of Venyu to offset the purchase of investments. The sale of Venyu in August 2013 resulted in proceeds of $30.8 million and principal repayments of $19.0 million. Our cash flows from operations generally come from cash collections of interest and dividend income from our portfolio companies, as well as cash proceeds received through repayments of loan investments and sales of equity investments. These cash collections are primarily used to pay distributions to our stockholders, interest payments on our Credit Facility, dividend payments on our two series of term preferred stock, management fees to the Adviser, and other entity-level expenses.

As of December 31, 2014, we had equity investments in or loans to 32 private companies with an aggregate cost basis of approximately $457.4 million. As of December 31, 2013, we had equity investments in or loans to 26 private companies with an aggregate cost basis of approximately $360.1 million. The following table summarizes our total portfolio investment activity during the nine months ended December 31, 2014 and 2013:

	Nine Months Ended December 31,	
	2014	**2013**
Beginning investment portfolio, at fair value	**$ 314,393**	$ 286,482
New investments	**67,202**	96,848
Disbursements to existing portfolio companies	**12,127**	3,286
Increase in investment balance due to PIK	**78**	58

Scheduled principal repayments	**(878)**	(110)
Unscheduled principal repayments	**(4,701)**	(46,524)
Net proceeds from sales	**221**	(31,602)
Net realized (loss) gain	**(221)**	11,689
Net unrealized appreciation (depreciation)	**5,924**	(25,178)
Reversal of net unrealized appreciation		(4,222)
Ending investment portfolio, at fair value	**$ 394,145**	$ 290,727

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of December 31, 2014:

		Amount
For the remaining three months ending March 31:	2015	$ 25,224
For the fiscal year ending March 31:	2016	48,529
	2017	24,915
	2018	89,159
	2019	84,181
	Thereafter	60,920
	Total contractual repayments	**$ 332,928**
	Investments in equity securities	124,437
	Total cost basis of investments held at December 31, 2014:	**$ 457,365**

Financing Activities

Net cash provided by financing activities for the nine months ended December 31, 2014, was approximately $57.0 million, which consisted primarily of $34.6 million of net borrowings on our Credit Facility. In addition, we had proceeds from the issuance of our Series B Term Preferred Stock in November 2014 of $41.4 million, which was partially offset by $15.6 million in distributions to common stockholders. Net cash used in financing activities for the nine months ended December 31, 2013, was approximately $59.5 million and consisted primarily of net repayments of our short-term borrowings of $49.5 million and distributions to common stockholders of $14.0 million, partially offset by $5.2 million in net borrowings from our Credit Facility.

Distributions

To qualify to be taxed as a RIC and thus avoid corporate level tax on the income we distribute to our stockholders, we are required under Subchapter M of the Code, to distribute to our stockholders at least 90.0% of our ordinary income and realized net short-term capital gains in excess of realized net long-term losses, if any, to our stockholders on an annual basis. In accordance with these requirements, we declared and paid monthly cash distributions of $0.06 per common share for each of the nine months from April 2014 through December 2014, as well as a one-time special distribution of $0.05 in December 2014. In January 2015, our Board of Directors also declared a monthly distribution of $0.06 per common share for each of January, February and March 2015. Our Board of Directors declared these distributions based on estimates of net taxable income for the fiscal year ending March 31, 2015.

For our federal income tax reporting purposes, we determine the tax characterization of our common distributions as of the end of our fiscal year based upon our taxable income for the full fiscal year and distributions paid during the full fiscal year. Therefore, a determination of tax attributes made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full fiscal year. If we determined the tax attributes of our distributions as of December 31, 2014, 100.0% would be from ordinary income. For the nine months ended December 31, 2014, we recorded a $0.3 million adjustment for estimated book-tax differences which decreased capital in excess of par value and increased net investment income in excess of distributions. For the fiscal year ended March 31, 2014, our distributions to common stockholders totaled $18.8 million, and were less than our taxable income over the same year. At March 31, 2014, we elected to treat $3.9 million, of the first distribution paid after fiscal year-end as having been paid in the prior fiscal year, in accordance with Section 855(a) of the Code. Additionally, the covenants in our Credit Facility generally restrict the amount of distributions that we can pay out to be no greater than our net investment income.

We also declared and paid monthly cash distributions of $0.1484375 per share to holders of our Series A Term Preferred Stock for each of the nine months from April 2014 through December 2014. For the nine months ended December 31, 2014, our Board of Directors declared and we paid distributions for the pro-rated month of November 2014 and the full month of December 2014 in aggregate of $0.2250 to our holders of Series B Term Preferred Stock. In January 2015, our Board of Directors also declared a monthly distribution of $0.1484375 and $0.140625 per preferred share for each of January, February and March 2015 to the holders of our Series A Term Preferred Stock and Series B Term Preferred Stock, respectively. In accordance with GAAP, we treat these monthly distributions as an operating expense. The tax character of distributions paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

Equity

Registration Statement

We filed a registration statement on Form N-2 (File No. 333-181879) with the SEC on June 4, 2012, and subsequently filed a Pre-Effective Amendment No. 1 to the registration statement on July 17, 2012, which the SEC declared effective on July 26, 2012. On June 7, 2013, we filed Post-Effective Amendment No. 2 to the registration statement, which the SEC declared effective on July 26, 2013. On June 3, 2014, we filed Post-Effective Amendment No. 3 to the registration statement, and subsequently filed a Post-Effective Amendment No. 4 to the registration statement on September 2, 2014, which the SEC declared effective on September 4, 2014. The registration statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common or preferred stock, including through a combined offering of two or more of such securities. We have the ability to issue up to $225.6 million in securities under the registration statement. We issued approximately $33.0 million of common stock under the registration statement in October and November 2012 and approximately $41.4 million of our Series B Term Preferred Stock under the registration statement in November 2014. No other securities have been issued to date under the registration statement.

Common Stock

Pursuant to our registration statement on Form N-2 (Registration No. 333-181879), on October 5, 2012, we completed a public offering of 4.0 million shares of our common stock at a public offering price of $7.50 per share, which was below then current NAV of $8.65 per share. Gross proceeds totaled $30.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $28.3 million, which was used to repay borrowings under our Credit Facility. In connection with the offering, in November 2012, the underwriters exercised their option to purchase an additional 395,825 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of $3.0 million and net proceeds, after deducting underwriting discounts, of $2.8 million.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. When our common stock is trading at a price below NAV per share, as it has consistently since September 30, 2008, the 1940 Act places regulatory constraints on our ability to obtain additional capital by issuing common stock. Generally, the 1940 Act provides that we may not issue and sell our common stock at a price below our NAV per common share, other than to our then existing common stockholders pursuant to a rights offering, without first obtaining approval from our stockholders and our independent directors. On February 3, 2015, the closing market price of our common stock was $7.37 per share, representing a 13.8% discount to our NAV of $8.55 as of December 31, 2014. To the extent that our common stock continues to trade at a market price below our NAV per common share, we will generally be precluded from raising equity capital through public offerings of our common stock, other than pursuant to stockholder approval or through a rights offering to existing common stockholders. At our 2014 Annual Meeting of Stockholders held on August 7, 2014, our stockholders approved a proposal authorizing us to issue and sell shares of our common stock at a price below our then current NAV per common share for a period of one year from the date of such approval, provided that our Board of Directors makes certain determinations prior to any such sale.

Term Preferred Stock

Pursuant to our registration statement on Form N-2 (File No. 333-181879), in November 2014, we completed an offering of approximately 1.7 million shares of Series B Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $41.4 million, and net proceeds, after deducting underwriting discounts and offering expenses borne by us were $39.7 million, a portion of which was used to repay borrowings under our Credit Facility, with the remaining proceeds being held to make additional investments and for general corporate purposes. We incurred $1.7 million in total offering costs related to the offering, which have been recorded as an asset in accordance with GAAP and are being amortized over the redemption period ending December 31, 2021.

Our Series B Term Preferred Stock provides for a fixed dividend equal to 6.75% per year, payable monthly (which equates to a total of $2.8 million per year). We are required to redeem all of our outstanding Series B Term Preferred Stock on December 31, 2021, for cash at a redemption price equal to $25.00 per share plus an amount equal to accumulated but unpaid dividends, if any, to the date of redemption. Our Series B Term Preferred Stock has a preference over our common stock with respect to dividends, whereby no distributions are payable on our common stock unless the stated dividends, including any accrued and unpaid dividends, on our Series B Term Preferred Stock have been paid in full. Our Series B Term Preferred Stock is not convertible into our common stock or any other security. In addition, two other potential mandatory redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series B Term Preferred Stock, (2) if we fail to maintain an asset coverage ratio of at least 200%, we are required to redeem a portion of our outstanding Series B Term Preferred Stock or otherwise cure the ratio redemption trigger. We may also voluntarily redeem all or a portion of our Series B Term Preferred Stock at our sole option at the redemption price in order to have an asset coverage ratio of up to and including 215.0% and at any time on or after December 31, 2017.

Pursuant to the prior registration statement on Form N-2 (File No. 333-160720), in March 2012, we completed an offering of 1.6 million shares of Series A Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $40 million, and net proceeds, after deducting underwriting discounts and offering expenses borne by us were $38 million, a portion of which was used to repay borrowings under our Credit Facility, with the remaining proceeds being held to make additional investments and for general corporate purposes. We incurred $2 million in total offering costs related to the offering, which have been recorded as an asset in accordance with GAAP and are being amortized over the redemption period ending February 28, 2017.

Our Series A Term Preferred Stock provides for a fixed dividend equal to 7.125% per year, payable monthly (which equates to $2.9 million per year). We are required to redeem all of our outstanding Series A Term Preferred Stock on February 28, 2017, for cash at a redemption price equal to $25.00 per share plus an amount equal to accumulated but unpaid dividends, if any, to the date of redemption. Our Series A Term Preferred Stock has a preference over our common stock with respect to dividends, whereby no distributions are payable on our common stock unless the stated dividends, including any accrued and unpaid dividends, on our Series A Term Preferred Stock have been paid in full. Our Series A Term Preferred Stock is not convertible into our common stock or any other security. In addition, three other potential redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series A Term Preferred Stock; (2) if we fail to maintain an asset coverage ratio of at least 200.0%, we are required to redeem a portion of our outstanding Series A Term Preferred Stock or otherwise cure the ratio redemption trigger and (3) at our sole option, at any time on or after February 28, 2016, we may redeem some or all of our Series A Term Preferred Stock.

Our Series A Term Preferred Stock and Series B Term Preferred Stock have been recorded as a liability in accordance with GAAP and, as such, affect our asset coverage, exposing us to additional leverage risks.

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Revolving Credit Facility

On June 26, 2014, we, through Business Investment, entered into Amendment No. 1 to our Credit Facility, with Key Equipment, administrative agent, lead arranger and a lender; BB&T, as a lender and managing agent; and the Adviser, as servicer, to extend the revolving period and reduce the interest rate of our revolving line of credit. The revolving period was extended 14 months to June 26, 2017, and if not renewed or extended by June 26, 2017, all principal and interest will be due and payable on or before June 26, 2019 (two years after the revolving period end date). In addition, we have retained the two one-year extension options, to be agreed upon by all parties, which may be exercised on or before June 26, 2015 and 2016, respectively, and upon exercise, the options would extend the revolving period to June 26, 2018 and 2019 and the maturity date to June 26, 2020 and 2021, respectively. Subject to certain terms and conditions, our Credit Facility can be expanded by up to $145.0 million, to a total facility amount of $250 million, through additional commitments of existing or new committed lenders. Advances under our Credit Facility generally bear interest at 30-day LIBOR, plus 3.25% per annum, down from 3.75% prior to the amendment, and our Credit Facility includes an unused fee of 0.50% on undrawn amounts. Once the revolving period ends, the interest rate margin increases to 3.75% for the period from June 26, 2017 to June 26, 2018, and further increases to 4.25% through maturity. We incurred fees of $0.4 million in connection with this amendment, which are being amortized through our Credit Facility s revolver period end date of June 26, 2017.

On September 19, 2014, we further increased our borrowing capacity under our Credit Facility from $105.0 million to $185.0 million by entering into Joinder Agreements pursuant to our Credit Facility, by and among Business Investment, Key Equipment, the Adviser and each of East West Bank, Manufacturers and Traders Trust, Customers Bank and Talmer Bank and Trust. We incurred fees of $1.3 million in connection with this expansion, which are being amortized through our Credit Facility s revolver period end date of June 26, 2017.

Our Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict material changes to our credit and collection policies without lenders consent. The facility generally also limits payments as distributions to the aggregate net investment income for each of the twelve month periods ending March 31, 2015, 2016 and 2017. We are also subject to certain limitations on the type of loan investments we can make, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, average life and lien property. Our Credit Facility also requires us to comply with other financial and operational covenants, which obligate us to, among other things, maintain certain financial ratios, including asset and interest coverage, a minimum net worth and a minimum number of obligors required in the borrowing base of the credit agreement. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth of $170 million plus 50.0% of all equity and subordinated debt raised after April 30, 2013, which equates to $170 million as of December 31, 2014, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200.0%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of December 31, 2014, and as defined in the performance guaranty of our Credit Facility, we had a minimum net worth of $307.7 million, an asset coverage of 220.7% and an active status as a BDC and RIC. As of December 31, 2014, we were in compliance with all covenants.

Our Credit Facility also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with Key Equipment and with The Bank of New York Mellon Trust Company, N.A. as custodian. Key Equipment is also the trustee of the account and generally remits the collected funds to us once a month.

Pursuant to the terms of our Credit Facility, in July 2013, we entered into a forward interest rate cap agreement, effective October 2013 and expiring April 2016, for a notional amount of $45 million. We incurred a premium fee of

$75 in conjunction with this agreement. The interest rate cap agreement effectively limits the interest rate on a portion of the borrowings pursuant to the terms of our Credit Facility.

Contractual Obligations and Off-Balance Sheet Arrangements

We have lines of credit to certain of our portfolio companies that have not been fully drawn. Since these lines of credit have expiration dates and we expect many will never be fully drawn, the total line of credit commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the unused line of credit commitments as of December 31 and March 31, 2014 to be minimal.

In addition to the lines of credit to our portfolio companies, we have also extended certain guarantees on behalf of some our portfolio companies, whereby we have guaranteed an aggregate of $2.7 million of obligations of Country Club Enterprises, LLC (CCE). As of December 31, 2014, we have not been required to make any payments on any of the guarantees, and we consider the credit risks to be remote and the fair value of the guarantees to be minimal.

The following table shows our contractual obligations as of December 31, 2014, at cost:

		Payments Due by Period			
Contractual Obligations(A)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Credit Facility	95,800			95,800	
Term preferred stock	81,400			40,000	41,400
Secured borrowing	5,096			5,096	
Interest payments on obligations(B)	44,915	9,766	17,321	12,474	5,354
Total	**$ 227,211**	**$ 9,766**	**$ 17,321**	**$ 153,370**	**$ 46,754**

(A) Excludes our unused line of credit commitments and guaranties to our portfolio companies in the aggregate amount of $9.6 million.

(B) Includes interest payments due on our Credit Facility and dividend obligations on each series of our term preferred stock. Dividend payments on our term preferred stock assume quarterly declarations and monthly distributions through the date of mandatory redemption of each series.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, including disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates under different assumptions or conditions. We have identified our investment valuation policy (the Policy) 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 our investments and the related amounts of unrealized appreciation and depreciation of investments recorded in our accompanying *Condensed Consolidated Financial Statements.*

Accounting Recognition

We record our investments at fair value in accordance with the Financial Accounting Standards Board (the FASB) Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* (ASC 820) and the 1940 Act. Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and amortized cost basis of the investment, without regard to unrealized depreciation or appreciation previously recognized, and include investments charged off during the period, net of recoveries. Unrealized depreciation or appreciation primarily reflect the change in investment fair values, including the reversal of previously recorded unrealized depreciation or appreciation when gains or losses are realized.

In accordance with ASC 820, our investments fair value is determined to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between willing market participants on the measurement date. This fair value definition focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of a financial instrument as of the measurement date.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical financial instruments in active markets;

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

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the financial instrument and can include the Valuation Team s own assumptions based upon the best available information.

When a determination is made to classify our investments within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. As of December 31 and March 31, 2014, all of our investments were valued using Level 3 inputs and during the nine months ended December 31, 2014 and 2013, there were no investments transferred in to or out of Level 1, 2 or 3.

Board Responsibility

In accordance with the 1940 Act, our Board of Director has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on the Policy. Our Board of Directors reviews valuation recommendations that are provided by professionals of the Adviser and Administrator with oversight and direction from the valuation officer (the Valuation Team). There is no single standard for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. In determining the fair value of our investments, the Valuation Team, led by the valuation officer, uses the Policy and each quarter our Board of Directors reviews the Policy to determine if changes thereto are advisable and also reviews whether the Valuation Team has applied the Policy consistently.

Use of Third Party Valuation Firms

The Valuation Team engages third party valuation firms to provide independent assessments of fair value of certain of our investments. Currently, the third-party service provider Standard & Poor s Securities Evaluation, Inc. (SPSE) provides estimates of fair value on the majority of our debt investments.

The Valuation Team generally assigns SPSE s estimates of fair value to our debt investments where we do not have the ability to effectuate a sale of the applicable portfolio company. The Valuation Team corroborates SPSE s estimates of fair value using one or more of the valuation techniques discussed below. The Valuation

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Team s estimates of value on a specific debt investment may significantly differ from SPSE s. When this occurs, our Board of Directors reviews whether the Valuation Team has followed the Policy and whether the Valuation Team s recommended value is reasonable in light of the Policy and other relevant facts and circumstances and then votes to accept or reject the Valuation Team s recommended valuation.

Valuation Techniques

In accordance with ASC 820, the Valuation Team uses the following techniques when valuing our investment portfolio:

Total Enterprise Value In determining the fair value using a total enterprise value (TEV), the Valuation Team first calculates the TEV of the portfolio company by incorporating some or all of the following factors: the portfolio company s ability to make payments and other specific portfolio company attributes; the earnings of the portfolio company (the trailing or projected twelve month revenue or EBITDA); EBITDA or revenue multiples obtained from our indexing methodology whereby the original transaction EBITDA or revenue multiple at the time of our closing is indexed to a general subset of comparable disclosed transactions and EBITDA or revenue multiples from recent sales to third parties of similar securities in similar industries; a comparison to publicly traded securities in similar industries; and other pertinent factors. The Valuation Team generally references industry statistics and may use outside experts when gathering this information. Once the TEV is determined for a portfolio company, the Valuation Team then allocates the TEV to the portfolio company s securities in order of their relative priority in the capital structure. Generally, the Valuation Team uses TEV to value our equity investments and, in the circumstances where we have the ability to effectuate a sale of a portfolio company, our debt investments.

TEV is primarily calculated using EBITDA or revenue multiples; however, TEV may also be calculated using a discounted cash flow (DCF) analysis whereby future expected cash flows of the portfolio company are discounted to determine a net present value using estimated risk-adjusted discount rates, which incorporate adjustments for nonperformance and liquidity risks. Generally, the Valuation Team uses the DCF to calculate the TEV to corroborate estimates of value for our equity investments, where we do not have the ability to effectuate a sale of a portfolio company or for debt of credit impaired portfolio companies.

Yield Analysis The Valuation Team generally determines the fair value of our debt investments using the yield analysis, which includes a DCF calculation and the Valuation Team s own assumptions, including, but not limited to, estimated remaining life, current market yield, current leverage, and interest rate spreads. This technique develops a modified discount rate that incorporates risk premiums including, among other things, increased probability of default, increased loss upon default and increased liquidity risk. Generally, the Valuation Team uses the yield analysis to corroborate both estimates of value provided by SPSE and market quotes.

In addition to the above valuation techniques, the Valuation Team may also consider other factors when determining fair values of our investments, including, but not limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on debt and equity investments made during the most recently completed quarter are generally valued at original cost basis. Fair value measurements of our investments may involve subjective judgments and estimates and due to the inherent uncertainty of determining these fair values, the fair value of our investments may fluctuate from period to period. Additionally, changes in the market environment and other events that may occur over the life of the investment may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which it is recorded.

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Credit Monitoring and Risk Rating

The 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 and, in some instances, are used as inputs in our valuation techniques. We, through the Adviser, participate in periodic board meetings of our portfolio companies in which we hold board seats and also require them to provide annual audited and monthly unaudited financial statements. Using these statements or comparable information and board discussions, the Adviser calculates and evaluates certain credit statistics.

The Adviser risk rates all of our investments in debt securities. The Adviser does not risk rate our equity securities. For debt securities, the Adviser uses a proprietary risk rating system. While the Adviser seeks to mirror the Nationally Recognized Statistical Rating Organization (NRSRO) systems, we cannot provide any assurance that the Adviser s risk rating system will provide the same risk rating as an NRSRO for these securities. The Adviser s risk rating system is used to estimate the probability of default on debt securities and the expected loss if there is a default. The Adviser s risk rating system uses a scale of 0 to >10, with >10 being the lowest probability of default. It is the Adviser s understanding that most debt securities of medium-sized companies do not exceed the grade of BBB on an NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A. Therefore, the Adviser s scale begins with the designation >10 as the best risk rating which may be equivalent to a BBB from an NRSRO; however, no assurance can be given that a >10 on the Adviser s scale is equal to a BBB or Baa2 on an NRSRO scale. The Adviser s risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold. During the three months ended June 30, 2014, we modified our risk rating model to incorporate additional factors in our qualitative and quantitative analysis. While the overall process did not change, we believe the additional factors enhance the quality of the risk ratings of our investments. No adjustments were made to prior periods as a result of this modification.

The following table lists the risk ratings for all loans in our portfolio as of December 31 and March 31, 2014, representing 100.0%, of the principal balance of all loans in our portfolio at the end of each period:

Rating	**As of December 31, 2014**	**As of March 31, 2014**
Highest	**8.6**	**9.1**
Average	**6.2**	**5.7**
Weighted Average	**6.2**	**5.2**
Lowest	**2.8**	**2.6**

Tax Status

Federal Income Taxes

We intend to continue to qualify for treatment as a RIC under Subchapter M of the Code. As a RIC, we are not subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To maintain our qualification as a RIC, we must meet certain source-of-income, asset diversification and annual distribution requirements. In addition, in order to qualify to be taxed as a RIC, we must also meet certain annual stockholder distribution requirements. To satisfy the RIC annual distribution requirement, we must distribute to stockholders at least 90.0% of our investment company taxable income, as defined by the Code. Our policy generally is to make distributions to our stockholders in an amount up to 100.0% of our investment company taxable income.

In an effort to limit certain excise taxes imposed on RICs, we generally intend to distribute during each calendar year, an amount at least equal to the sum of (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and capital gains in excess of capital losses for preceding years that were not distributed during such years. However, we did incur an excise tax of $0.3 million and $31 for the calendar years ended December 31, 2013 and 2012, respectively and as of December 31, 2014, have accrued $0.1 million in excise tax expense recorded in other general and administrative expenses on our accompanying *Condensed Consolidated Statement of Operations* for the calendar year ended December 31, 2014. Under the RIC Modernization Act (the RIC Act), we are permitted to carry forward capital losses incurred in taxable years beginning after March 31, 2011, for an unlimited period. However, any losses incurred during those future taxable years must be used prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than only being considered short-term as permitted under previous regulation. Our total capital loss carryforward balance was $0.2 million as of March 31, 2014.

Revenue Recognition

Interest income, adjusted for amortization of premiums, amendment fees and acquisition costs and the accretion of discounts, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past-due principal and interest are paid, and, in management s judgment, are likely to remain current, or due to a restructuring, the interest income is deemed to be collectible. As of December 31, 2014, our loans to Tread were on non-accrual status, with an aggregate debt cost basis of $10.7 million, or 3.2% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0. As of March 31, 2014, our loans to Tread were on non-accrual status, with an aggregate debt cost basis of $11.7 million, or 4.2% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0.

PIK interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income over the life of the obligation. As of December 31, 2014, we did not have any loans with a PIK interest component and as of March 31, 2014, we had one loan with a PIK interest component. During the three and nine months ended December 31, 2014, we recorded PIK income of $29 and $68, respectively. During the three and nine months ended December 31, 2014, we recorded PIK income of $20 and $78, respectively. We collected $0.2 million PIK interest in cash during the three and nine months ended December 31, 2014 and $0 PIK interest in cash during the three and nine months ended December 31, 2013.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We received an aggregate of $0.5 million and $1.0 million of success fees for the three and nine months ended December 31, 2014, respectively, which resulted from prepaid success fees of $0.5 million from SOG in December 2014, 0.2 million from ASH in September 2014, $0.2 million from Frontier Packaging, Inc. in September 2014 and $0.1 million from Mathey in September 2014. We received an aggregate of $1.1 million and $3.4 million of success fees during the three and nine months ended December 31, 2013, respectively, which resulted from $0.8 million related to the Channel debt repayment in October 2013 and $0.2 million related to the Cavert debt repayment in December 2013.

We accrue dividend income on preferred and common equity securities to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash or other consideration. During the three and nine months ended December 31, 2014, we recorded $1.4 million and $2.7 million of dividend income from Mathey, respectfully. During each of the three and nine months ended December 31, 2013, we recorded $1.4 million in dividend income related to the exit of Venyu.

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Both dividend and success fee income are recorded in other income in our accompanying *Condensed Consolidated Statements of Operations*.

Recent Accounting Pronouncements

See Note 2 *Summary of Significant Accounting Policies* in the accompanying notes to our *Condensed Consolidated Financial Statements* included elsewhere in this report for a description and our adoption of recent accounting pronouncements.

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LEGAL PROCEEDINGS

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

MANAGEMENT

On November 17, 2014, the Board of Directors elected Caren D. Merrick to fill a vacancy in the board s Class of 2015. Ms. Merrick was also appointed a member of the Company s Audit Committee, effective immediately. Ms. Merrick is an independent director within the meaning of NASDAQ Stock Market Marketplace Rule 5605(a)(2) and Section 10A of the Exchange Act.

Ms. Merrick, age 54, has served as our director and as a director of Gladstone Commercial, Gladstone Capital and Gladstone Land since November 2014. Ms. Merrick is the founder of, and since 2014 has served as the chief executive officer of, Pocket Mentor, a mobile application and digital publishing company focused on leadership development and career advancement. Since 2004 she has served as a partner with Bibury Partners, an investment and advisory firm that focuses on enterprise and consumer technology sectors. In addition, she has served as a board member of the Metropolitan Washington Airports Authority since 2012. Ms. Merrick co-founded, and from 1996 to 2001 served as an executive vice president of, webMethods, Inc., a company that provides business-to-business enterprise software solutions for Global 2000 companies. Ms. Merrick served on the boards of directors of VisualCV, a venture-backed online resume and corporate talent management solution, from 2008 to 2011, Inova Healthcare Services from 2001 to 2005, and the Northern Virginia Technology Council from 2000 to 2004. Ms. Merrick previously served as a member of the Technology Subgroup on the Virginia Governor s Economic Development and Jobs Creation Commission from 2010 to 2011. Ms. Merrick also was director of AOL.com for America Online from 1996 to 1997, and has also been a consultant for Australia Post, a $5 billion government business enterprise that provides postal, retail and financial, logistics and fulfillment services across Australia. Ms. Merrick is also a founding investor in Venture Philanthropy Partners, a philanthropic investment organization that mentors nonprofit leaders in growing programs to improve the lives of children from low income families in the National Capital Region. She has also served on the boards of several Washington, DC area charities, including Greater DC Cares, CharityWorks, the Fairfax Symphony and the Langley School. She is an active member of ARCS Advancing Science in America Achievement Awards for College Scientists. She also currently serves on the Board of the Global Good Fund and the Women in Technology s Leadership Foundry. Ms. Merrick received a BA in political science from the University of California, Los Angeles, and has received a Certificate of Director Education from the National Association of Corporate Directors.

Ms. Merrick was selected to serve as an independent director on our Board due to her knowledge and experience in operating a business and her understanding of the small business area through experiences overseeing the successful growth of her own business and several large and small businesses, charities and non-profits.

On October 7, 2014, the Board of Directors elected Walter H. Wilkinson, Jr. to the board to fill the directorship vacancy created upon the death of a former director. Mr. Wilkinson was also appointed a member of each of the Company s Compensation Committee and Ethics, Nominating and Corporate Governance Committee, effective immediately. Mr. Wilkinson is an independent director within the meaning of NASDAQ Stock Market Marketplace Rule 5605(a)(2) and Section 10A of the Exchange Act. Because Mr. Wilkinson is filling a vacancy on our board, Mr. Wilkinson s initial term will expire on the date of the Company s 2015 Annual Meeting of Shareholders.

Mr. Wilkinson, age 69, has served as our director and as a director of Gladstone Capital, Gladstone Commercial and Gladstone Land since October 2014. Mr. Wilkinson is the founder and a general partner of Kitty Hawk Capital, a venture capital firm established in 1980 and based in Charlotte, North Carolina. He has served as a director of RF Micro Devices (NASDAQ: RFMD) since 1992 and has served as the Chairman of the Board of Directors from July 2008 until January 2015 when TLF Micro Devices merged with Triquint Semiconductor, Inc. (NASDAQ: TQNT) to form the new company QORVO (NASDAQ: QRVO) where he serves as lead director. He currently serves on the board of the N.C. State University Foundation and has previously served on the boards of other universities and related organizations. He is a past member and director of the National Venture Capital Association and is a past member and Chairman of the National Association of Small Business Investment Companies. He was founding Chairman of the Carolinas Chapter of the National Association of Corporate Directors (NACD), is currently on NACD s board and is a NACD Leadership Fellow, having completed the NACD s program for corporate directors. During his career he has helped to start or expand dozens of rapidly growing companies in a variety of industries. Mr. Wilkinson serves or has served as a director of numerous venture-backed companies, both public and private. He is a graduate of N.C. State University (BS) and the Harvard Graduate School of Business Administration (MBA).

Mr. Wilkinson was selected to serve as an independent director on our Board due to his strong leadership skills, his past service on other public company boards and his over 35 years of venture capital experience.

On January 9, 2015, David Watson resigned as the Company s chief financial officer and treasurer. On January, 13, 2015, our Board of Directors accepted Mr. Watson s resignation and appointed Melissa Morrison, Gladstone Capital s chief financial officer and treasurer, as the Company s chief financial officer and treasurer.

Ms. Morrison, age 41, was appointed chief financial officer and treasurer of the Company in January 2015. Ms. Morrison originally joined The Gladstone Companies as chief accounting officer of Gladstone Capital in October 2011 and became the chief financial officer of Gladstone Capital in April 2013 and treasurer of Gladstone Capital in January 2015. Prior to joining Gladstone, she served as the Americas corporate controller for Tandberg, which was later purchased by Cisco Systems. Ms. Morrison has also worked for DynCorp and Ericsson as a financial reporting manager and assistant controller and began her career at PricewaterhouseCoopers working on attest engagements. Ms. Morrison is a CPA with the Commonwealth of Virginia and a Magna Cum Laude graduate from the College of William and Mary where she earned a BBA in Accounting. She is a member of the VSCPA and AICPA.

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UNDERWRITING

Janney Montgomery Scott LLC, BB&T Capital Markets, a division of BB&T Securities, LLC, Ladenburg Thalmann & Co. Inc. and Wunderlich Securities, Inc. are acting as joint book-running managers of this offering. J.J.B. Hilliard, W.L. Lyons, LLC and Maxim Group LLC are acting as co-managers of this offering. Subject to the terms and conditions of the underwriting agreement dated March , 2015, the underwriters have agreed to purchase severally, and we have agreed to sell to the underwriters, the number of shares of common stock set forth opposite their respective names below at the public offering price less the underwriting discounts and commissions on the cover page of this prospectus supplement.

Underwriters	Number of Shares
Janney Montgomery Scott LLC	
BB&T Capital Markets, a division of BB&T Securities, LLC	
Ladenburg Thalmann & Co. Inc.	
Wunderlich Securities, Inc.	
J.J.B. Hilliard, W.L. Lyons, LLC	
Maxim Group LLC	
Total	3,000,000

Janney Montgomery Scott LLC is acting as lead book-running manager and sole representative of the underwriters named above.

The underwriting agreement provides that obligations of the underwriters to purchase the shares of our common stock that are being offered are subject to the approval of certain legal matters by counsel to the underwriters and to certain other conditions. Each underwriter is obligated to purchase all of the shares of our common stock set forth opposite its name in the table above if it purchases any shares of our common stock

The underwriters propose to offer some of the shares of our common stock directly to the public at the offering price per share shown on the cover page of this prospectus supplement and may offer shares to certain dealers at such price less a concession not in excess of $ per share. After the public offering of the shares of our common stock, the offering price and concessions described above may be changed by the underwriters.

We have granted to the underwriters an option, exercisable for up to 30 days after the date of this prospectus supplement, to purchase up to 450,000 additional shares of our common stock at the same price per share as the public offering price, less the underwriting discounts shown on the cover page of this prospectus supplement. The underwriters may exercise such option only to cover overallotments in the sale of our common stock offered by this prospectus supplement. To the extent that the underwriters exercise this option, each of the underwriters has a firm commitment, subject to certain conditions set forth in the underwriting agreement, to purchase the number of such additional shares of our common stock that is proportionate to such underwriter s initial commitment indicated in the table above.

The following table shows per share and total underwriting discounts and commissions to be paid to the underwriters by us. The amounts as shown assume (1) no exercise of and (2) exercise in full of the underwriters option to purchase the overallotment shares:

	Per Share		Total	
	Without Overallotment	**With Overallotment**	**Without Overallotment**	**With Overallotment**
Public offering price	$	$	$	$
Underwriting discounts and commissions paid by us	$	$	$	$
Proceeds to us, before expenses	$	$	$	$

We estimate that expenses payable by us in connection with this offering, other than underwriting discounts and commissions referred to above, will be approximately $240,000. Of this amount, $25,000 represents expenses for which we will reimburse the underwriters for reasonable and accountable out-of-pocket expenses, including reasonable fees for their counsel.

In connection with this offering and in compliance with applicable securities laws, including Regulation M under the Exchange Act, the underwriters may overallot (i.e., sell more shares of common stock than the amount shown on the cover page of this prospectus supplement) and may effect transactions that stabilize, maintain or otherwise affect the market price of such shares at levels above those which might otherwise prevail in the open market. Such transactions may include making short sales and placing bids for the common stock or effecting purchases of such shares for the purpose of pegging, fixing or maintaining the market price of such shares or for the purpose of reducing a short position created in connection with this offering. The underwriters may cover a short position by exercising the overallotment option described above in place of, or in addition to, open market purchases.

Additionally, the underwriters may engage in syndicate covering transactions which involve purchases of shares of our common stock in the open market after they have completed the distribution of such shares in order to cover syndicate short positions. In determining the appropriate source of shares to close out a covered short sale, the underwriters may consider, among other things, the market price of such shares compared to the purchase price of shares available under the overallotment option.

The underwriters may also sell shares of our common stock in excess of the overallotment option, thereby creating a naked short position. The underwriters must close out any such naked short position by purchasing shares in the open market. The underwriters are more likely to create a naked short position if they are concerned that there may be downward pressure on the price of our common stock in the open market after pricing, which could adversely affect investors who purchase in this offering.

The underwriters may also impose a penalty bid in connection with this offering. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the shares of our common stock originally sold by such syndicate member are purchased in a stabilizing transaction or syndicate covering transaction to cover syndicate short positions. The imposition of a penalty bid may affect the open market price of shares of our common stock to the extent that it discourages resales of such shares.

We and the underwriters make no representation or prediction as to the direction or magnitude of any effect that these transactions may have on the market price of shares of our common stock. In addition, we and the underwriters make no representation that the underwriters will engage in such transactions or that such transactions, if and when commenced, will not be discontinued without notice.

Each underwriter does not intend to confirm sales of our common stock to any accounts over which it exercises discretionary authority.

The underwriting agreement provides that we and our directors and executive officers will agree not to, directly or indirectly, sell or otherwise dispose of any of shares of our common stock for a period of 60 days after the completion of this offering without the prior written consent of Janney Montgomery Scott LLC, on behalf of the underwriters. We have also agreed to make no such sales during this period except in connection with the issuance of shares of our common stock pursuant to our dividend reinvestment plan.

Notwithstanding the foregoing, if (1) during the last 17 days of the 60-day lock-up period, we issue an earnings release or material news or material event relating to us occurs; or (2) prior to the expiration of the 60-day lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 60-day lock-up period, and, in the case of either clause (1) or (2) immediately above, the safe harbor pursuant to Rule 139 under the Securities Act is not available to the underwriters, then the restrictions set forth above will continue to apply until the expiration of an 18-day period beginning on the date of issuance of such earnings release or the occurrence of the material news or material event.

In addition, the terms of the lock-up agreement do not prevent a stockholder party to such agreement from (a) transferring shares of our common stock acquired in open market transactions after the completion of this offering, (b) transferring any or all of the shares of our common stock or other Company securities if the transfer is by (i) gift, will or intestacy or (ii) distribution to partners, members or stockholders of the undersigned, (c) transferring shares of our common stock pursuant to any 10b5-1 trading plan in effect prior to the date of this prospectus and (d) entering into any new 10b5-1 plan, provided that no sales of shares of our common stock or other Company securities shall be made pursuant to such 10b5-1 plan until after the expiration of the lock-up period; provided, however, that in the case of a transfer pursuant to clause (b) above, it shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding the securities subject to the provisions of the lock-up agreement.

We have agreed to indemnify the underwriters against certain liabilities that they may incur in connection with this offering, including liabilities under the Securities Act.

This prospectus supplement and the accompanying prospectus may be made available in electronic format on websites maintained by one or more of the underwriters or selling group members, if any, participating in this offering, and one or more of the underwriters participating in this offering may distribute this prospectus supplement and the accompanying prospectus electronically. Janney Montgomery Scott LLC, as representative of the underwriters, may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations. Other than the prospectus supplement and the accompanying prospectus that are distributed in electronic format, the information on any of these underwriters or selling group members websites, and any other information contained on a website maintained by an underwriter or selling group member, is not part of this prospectus supplement or the accompanying prospectus.

The distribution of this prospectus supplement and the accompanying prospectus and this offering of our common stock in certain jurisdictions may be restricted by law. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions.

Affiliations and Conflicts of Interest

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses. Affiliates of certain of the underwriters serve as lenders under the Credit Facility and may serve as lenders under any future credit facilities. Affiliates of the underwriters may receive part of the proceeds of the offering by reason of the repayment of certain amounts outstanding under our credit facility.

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

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The principal business address of Janney Montgomery Scott LLC is 1717 Arch Street, Philadelphia, PA 19103. The principal business address of BB&T Capital Markets is 901 East Byrd Street, Suite 410, Richmond, VA 23219. The principal business address of Ladenburg Thalmann & Co. Inc. is 570 Lexington Avenue, 12th Floor, New York, NY 10022. The principal business address of Wunderlich Securities, Inc. is 6000 Poplar Avenue, Suite 150, Memphis, TN 38119. The principal business address of J.J.B. Hilliard, W.L. Lyons, LLC is 500 W. Jefferson Street, Louisville, KY 40202. The principal business address of Maxim Group LLC is 405 Lexington Avenue, 2nd floor New York, NY 10174.

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CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND PAYING AGENT

The custodian of our assets is The Bank of New York Mellon Corp. The custodian s address is: 500 Ross Street, Suite 935, Pittsburgh, PA 15262. Our assets are held under bank custodianship in compliance with the 1940 Act. Securities held through our wholly owned subsidiary, Gladstone Business Investment, LLC, or Business Investment, are held under a custodian agreement with The Bank of New York Mellon Corp., which acts as collateral custodian pursuant to the Credit Facility with Branch Banking and Trust Company and certain other parties. The address of the collateral custodian is 500 Ross Street, Suite 935, Pittsburgh, PA 15262. Computershare acts as our transfer and dividend paying agent and registrar. The principal business address of Computershare Inc. is 250 Royall Street, Canton, Massachusetts 02021, telephone number 781-575-2000. Computershare also maintains an internet website at www.computershare.com.

WHERE YOU CAN FIND MORE INFORMATION

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

This prospectus supplement and the accompanying prospectus do not contain all of the information in our registration statement, including amendments, exhibits and schedules. Statements in this prospectus supplement and in the accompanying prospectus about the contents of any contract or other document are not necessarily complete and, in each instance, reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

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

LEGAL MATTERS

The legality of securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. Certain legal matters will be passed upon for the underwriters by Dechert LLP, Washington, D.C.

EXPERTS

The financial statements as of March 31, 2014 and March 31, 2013 and for each of the three years in the period ended March 31, 2014 and management s assessment of the effectiveness of internal control over financial reporting (which is included in the Report of Management on Internal Controls) as of March 31, 2014 included in the accompanying prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	December 31, 2014	March 31, 2014
ASSETS		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of **$165,597** and $233,895, respectively)	**$ 165,518**	$ 205,440
Affiliate investments (Cost of **$260,936** and $120,010, respectively)	**209,307**	87,849
Control investments (Cost of **$30,832** and $29,632 respectively)	**19,320**	21,104
Total investments at fair value (Cost of **$457,365** and $383,537, respectively)	**394,145**	314,393
Cash and cash equivalents	**4,909**	4,553
Restricted cash and cash equivalents	**3,105**	5,314
Interest receivable	**1,690**	1,289
Due from custodian	**2,410**	1,704
Deferred financing costs	**4,931**	2,355
Other assets	**846**	1,086
TOTAL ASSETS	**$ 412,036**	$ 330,694
LIABILITIES		
Borrowings:		
Line of credit at fair value (Cost of **$95,800** and $61,250, respectively)	**$ 95,800**	$ 61,701
Secured borrowing	**5,096**	5,000
Total borrowings	**100,896**	66,701
Mandatorily redeemable preferred stock, $0.001 par value per share, $25.00 liquidation preference per share; **3,610,000** and 1,610,000 shares authorized, respectively; **3,256,000** and 1,600,000 shares issued and outstanding, respectively	**81,400**	40,000
Accounts payable and accrued expenses	**800**	665
Fees due to Adviser[(A)]	**1,588**	1,225
Fee due to Administrator[(A)]	**226**	224
Other liabilities	**854**	1,042
TOTAL LIABILITIES	**$ 185,764**	$ 109,857
Commitments and contingencies[(B)]		
NET ASSETS		
	$ 26	$ 26

Common stock, $0.001 par value per share, 100,000,000 shares authorized, **26,475,958** shares issued and outstanding				
Capital in excess of par value		**286,726**		287,062
Cumulative net unrealized depreciation of investments		**(63,220)**		(69,144)
Cumulative net unrealized appreciation of other		**(74)**		(525)
Net investment income in excess of distributions		**3,233**		3,616
Accumulated net realized loss		**(419)**		(198)
TOTAL NET ASSETS	**$**	**226,272**	$	220,837
NET ASSET VALUE PER SHARE AT END OF PERIOD	**$**	**8.55**	$	8.34

(A) Refer to Note 4 *Related Party Transactions* for additional information.
(B) Refer to Note 10 *Commitments and Contingencies* for additional information.

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

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	**2013**	**2014**	**2013**
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	**$ 3,969**	$ 5,826	**$ 13,720**	$ 15,719
Affiliate investments	**5,154**	160	**11,310**	1,091
Control investments	**608**	1,606	**1,673**	5,669
Cash and cash equivalents	**1**	1	**3**	2
Total interest income	**9,732**	7,593	**26,706**	22,481
Other income				
Non-Control/Non-Affiliate investments	**1,330**	304	**3,230**	878
Affiliate investments	**500**	799	**534**	799
Control investments				3,295
Total other income	**1,830**	1,103	**3,764**	4,972
Total investment income	**11,562**	8,696	**30,470**	27,453
EXPENSES				
Base management fee(A)	**1,927**	1,515	**5,337**	4,625
Loan servicing fee(A)	**1,295**	1,089	**3,588**	3,230
Incentive fee(A)	**1,460**	1,100	**3,726**	2,822
Administration fee(A)	**226**	239	**670**	638
Interest expense on borrowings	**1,042**	395	**2,500**	1,469
Dividends on mandatorily redeemable preferred stock	**1,085**	713	**2,510**	2,138
Amortization of deferred financing fees	**404**	262	**940**	761
Professional fees	**63**	329	**610**	609
Other general and administrative expenses	**383**	523	**1,130**	1,355
Expenses before credits from Adviser	**7,885**	6,165	**21,011**	17,647
Credit to base management fee loan servicing fee(A)	**(1,295)**	(1,089)	**(3,588)**	(3,230)
Credit to fees from Adviser other(A)	**(867)**	(782)	**(1,855)**	(1,627)
Total expenses, net of credits	**5,723**	4,294	**15,568**	12,790

NET INVESTMENT INCOME	**5,839**	4,402	**14,902**	14,663
REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized (loss) gain:				
Non-Control/Non-Affiliate investments		(11,361)		(11,361)
Affiliate investments		(1,754)		(1,754)
Control investments	**(209)**		**(221)**	24,804
Other		(29)		(29)