GLADSTONE INVESTMENT CORPORATION\DE
Form N-2/A
May 13, 2005

As filed with the Securities and Exchange Commission on May 13, 2005

Registration No. 333-123699

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
x Pre-Effective Amendment No. 1
o **Post-Effective Amendment No.**
Gladstone Investment Corporation
(Exact name of registrant as specified in its charter)

Delaware	**83-0423116**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*

1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
(703) 286-7000
(Address and telephone number, including area code, of principal executive offices)

David Gladstone
Chairman and Chief Executive Officer
Gladstone Investment Corporation
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
(Name and address of agent for service)

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Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of the Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

Subject to Completion Dated May 13, 2005

GLADSTONE INVESTMENT CORPORATION

12,000,000 Shares
Common Stock

Gladstone Investment Corporation is a newly organized closed-end, non-diversified management investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940. Our investment objective is to generate both current income and capital gains through debt and equity investments. We intend to invest primarily in subordinated loans, mezzanine debt, preferred stock and warrants to purchase common stock of small and mid-sized companies in connection with acquisitions, changes in control and recapitalizations. We may also invest in senior secured loans and common stock.

Our investment portfolio will be managed by Gladstone Management Corporation, a registered investment adviser, who will also provide the administrative services necessary for us to operate through its wholly owned subsidiary Gladstone Administration, LLC.

Because we are newly organized, our shares have no history of public trading. We have applied to have our common stock approved for quotation on The Nasdaq National Market under the symbol GAIN.

Investing in our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of the material risks of investing in our common stock, in Risk Factors beginning on page 12 of the prospectus. **This prospectus contains important information you should know before investing in our common stock. Please read it before you invest and keep it for future reference. Shares of closed-end investment companies frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it may increase the risk of loss for purchasers in this offering.**

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

	Per share	Total
Public offering price	$ 15.00	$ 180,000,000
Sales load	$ 1.05	$ 12,600,000
Proceeds, before expenses, to us(1)	$ 13.95	$ 167,400,000

(1) We estimate that we will incur approximately $1,300,000 in expenses in connection with this offering.

The underwriters will reserve up to 2,000,000 shares for sale at the public offering price, less the sales load, to our directors and employees, their families and certain other parties related to Gladstone Management Corporation. The underwriters may also purchase up to an additional 1,800,000 shares of our common stock at the public offering price, less the sales load, to cover over-allotments, if any, within 30 days from the date of this prospectus. If the underwriters exercise this option in full, the public offering price will be $207,000,000, the total sales load will be $14,490,000 and the total proceeds to us, before expenses, will be $192,510,000.

The underwriters expect to deliver the shares on or about , 2005.

Retail Book Runner	*Institutional Book Runner*	
Ferris, Baker Watts Incorporated	**Jefferies & Company, Inc.**	**RBC Capital Markets**
BB&T Capital Markets	**Oppenheimer & Co.**	**Stifel, Nicolaus & Company Incorporated**

J.J.B. Hilliard, W.L. Lyons, Inc. **Wunderlich Securities, Inc.**

, 2005

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

Through and including , 2005 (25 days after the date of this prospectus), federal securities laws may require all dealers that effect transactions in our common stock, whether or not participating in this offering, to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It may not contain all of the information that you might consider important in deciding to invest in our common stock. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. Except where the context suggests otherwise, the terms we, us, our and Gladstone Investment refer to Gladstone Investment Corporation; Gladstone Management refers to Gladstone Management Corporation; Gladstone Administration refers to Gladstone Administration, LLC; and Gladstone Group refers to Gladstone Management Corporation and its affiliated companies.

Gladstone Investment Corporation

We are a newly organized, closed-end management investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act. Our investment objective is to generate both current income and capital gains through debt and equity investments primarily in connection with cash acquisitions and changes in control, also known as buyouts, and recapitalization transactions. We intend to invest primarily in subordinated loans, mezzanine debt, preferred stock and warrants to purchase common stock of small and mid-sized companies. We may also invest in senior secured loans and common stock.

Our primary investment focus will be situations involving buyouts, and recapitalizations of small and mid-sized companies with established management teams. We expect that our investments will generally range between $10 million and $30 million each, although this investment size may vary proportionately as the size of our capital base changes. We expect to invest by ourselves and jointly with other buyout funds, depending on the opportunity. If we are participating in an investment with one or more co-investors, then our investment is likely to be smaller than if we are investing alone.

We initially intend to invest some of the proceeds in senior secured syndicated loans, since these investments typically may be made more quickly than investments in subordinated debt, mezzanine debt or preferred stock. We intend to employ this strategy in order to more quickly invest our initial capital to generate current income. Senior secured syndicated loans typically involve a number of banks or other financial institutions and are generally more marketable than loans that are not syndicated. We believe we will be able to sell our interests in senior secured syndicated loans and reinvest the proceeds in subordinated debt, mezzanine debt, preferred stock and other higher yielding investments when such investment opportunities are available. While we expect our portfolio to initially consist primarily of senior secured loans, over time we expect that it will consist primarily of subordinated debt, mezzanine debt and preferred stock. We anticipate making between 12 and 24 investments, consisting of some combination of senior debt, subordinated debt, mezzanine debt and preferred stock, in order to invest all the net proceeds from this offering.

Because of the increased due diligence process and individual negotiations associated with investing in the securities of small and mid-size companies, it may take us up to two years to fully invest the net proceeds from this offering. We expect our dividend to be smaller during this investment period than it will be once the net proceeds are fully invested. Once all the net proceeds of this offering have been substantially invested, we plan to secure a line of credit to provide additional capital to invest, although we cannot assure you that we will be successful in obtaining such a line of credit on acceptable terms, if at all. In addition, we hope to securitize some or all of the debt securities we acquire, which would provide us with another source of long-term financing. We cannot assure you that we will be able to securitize any of the debt securities we acquire.

While our primary focus will be to generate current income through investments in debt securities and preferred stock that we acquire in connection with buyout transactions and recapitalizations, we may invest up to 30% of our assets in opportunistic investments, which may not involve buyouts or recapitalizations, that Gladstone Management believes will enhance returns to our stockholders. Such investments may include high-yield bonds, distressed debt, publicly traded income depository securities (or IDSs), private equity partnerships, or securities of public companies that are actively traded. We expect that any public

company in which we invest will generally not have investment grade debt securities. We may also invest in cash, cash equivalents, U.S. government securities, and other high-quality, investment grade debt investments that mature in one year or less.

Our investment portfolio will be managed by Gladstone Management Corporation, a registered investment adviser, who will have broad discretion to make investments on our behalf. Gladstone Management will also provide the administrative services necessary for us to operate through its wholly owned subsidiary Gladstone Administration, LLC.

We intend to use our investment income to pay monthly cash dividends to our stockholders. At this time we cannot project the amount of these dividends, however we expect to begin paying dividends within 60 days of the completion of this offering.

We maintain a website at www.GladstoneInvestment.com. The contents of that website are not part of this prospectus.

Our Adviser

Gladstone Management Corporation, a Delaware corporation is a registered investment adviser founded in 2002 by David Gladstone, our chairman and chief executive officer, Terry Lee Brubaker, our vice chairman and chief operating officer, George Stelljes III, our president and chief investment officer, and four other co-founders. Gladstone Management will serve as our external investment adviser. Under the terms of our management and investment advisory agreement with Gladstone Management, Gladstone Management will be responsible for managing our business on a day-to-day basis and for identifying and making investments that it believes meet our investment criteria.

Messrs. Gladstone, Brubaker and Stelljes are also the senior management team of Gladstone Management and have extensive experience in making debt and equity investments in, and funding acquisitions of, small and mid-sized companies. In addition, Gladstone Management maintains a team of 15 investment professionals and ten supporting staff. The Gladstone Management professionals also possess significant capital markets and research expertise which will be useful in evaluating investment opportunities and structuring exit strategies with respect to investments. We expect that Gladstone Management will hire additional investment professionals after completion of this offering.

Gladstone Management specializes in managing publicly-traded entities that pay dividends and distributions to stockholders. It currently manages two such entities, Gladstone Capital Corporation, whose shares are traded on the Nasdaq National Market under the symbol GLAD and which we sometimes refer to herein as Gladstone Capital, and Gladstone Commercial Corporation, whose shares are traded on the Nasdaq National Market under the symbol GOOD and which we sometimes refer to herein as Gladstone Commercial. Gladstone Investment will be the third dividend-paying company managed by Gladstone Management. Each of these companies is organized in accordance with provisions of the Internal Revenue Code of 1986, or the Code, that permit them to avoid corporate-level federal income taxes if they distribute most of their earnings to shareholders and meet other requirements set forth in the Code. Gladstone Capital and Gladstone Commercial currently pay monthly dividends, and we anticipate that we will pay monthly dividends.

Gladstone Management has offices in McLean, VA, New York, NY, Pittsburgh, PA, Chicago, IL and Morristown, NJ. We expect Gladstone Management to open offices in additional cities following completion of this offering.

About the Gladstone Group of Companies

In this prospectus, we sometimes refer to the Gladstone Group, which is the group of companies affiliated with and advised by Gladstone Management. The Gladstone Group includes Gladstone Capital, Gladstone Commercial, and Gladstone Land Corporation, a private company controlled by Mr. Gladstone that owns farmland in California. Gladstone Management serves as the investment adviser to, and Mr. Gladstone also serves as the chief executive officer of, all three of these companies. The Gladstone

Group traditionally has focused its investments in companies that Gladstone Management believes are undervalued but that, at the same time, possess successful business models, established management teams, good cash flows and prospects for value creation. Gladstone Management s disciplined, value-and-income-oriented strategy is intended to produce quality opportunities in all investment environments. The Gladstone Group has participated in a broad range of investment structures, including corporate partner or traditional buyouts, distressed debt buyouts, or more liquid, non-control debt investments. This investment approach seeks to provide investors with attractive returns while reducing the risk of capital loss throughout economic cycles. Gladstone Management s investment professionals offer or provide managerial assistance to certain of the Gladstone Group s portfolio companies.

Gladstone Commercial invests in and owns net-leased industrial and commercial real property and selectively makes long-term industrial and commercial mortgage loans. Gladstone Commercial has elected to be taxed as a real estate investment trust under the Code. As of December 31, 2004, Gladstone Commercial had investments in net-leased real property totaling approximately $61 million and held approximately $12 million of mortgage loans. Its current monthly dividend is $0.06 per share.

Gladstone Capital focuses on making investments of $5 million to $15 million or more in senior second lien and senior subordinated debt instruments issued by small and mid-sized companies that are undergoing buyouts for which other private equity or buyout funds are providing the equity funding. Gladstone Capital does not control any of these portfolio companies. Gladstone Capital has elected to be treated as a business development company under the 1940 Act and to be taxed as a regulated investment company under the Code. As of December 31, 2004, Gladstone Capital had investments in 21 companies having an aggregate cost basis of approximately $170 million. Its current monthly dividend is $0.12 per share.

Our investment strategy differs from Gladstone Capital s investment strategy. Whereas Gladstone Capital generally seeks to generate current income through senior, second lien and senior subordinated debt investments representing non-control positions in its portfolio companies, we will seek, either alone or with other buyout funds, to achieve returns from current income and capital gains from junior subordinated and mezzanine debt, as well as preferred stock, representing controlling investments that we make in connection with buyouts and recapitalizations of small and mid-sized companies. In addition, during the first year of our operations we intend to invest mostly in senior debt, and thereafter we may also invest in senior, second lien and senior subordinated debt when we are providing more junior capital to finance a buyout or recapitalization. The chart below illustrates the various potential levels of investment securities comprising the balance sheet of a small or mid-sized company that may need financing. Gladstone Investment and Gladstone Capital will not invest in the same companies.

LIABILITY AND STOCKHOLDERS EQUITY SECTION OF BALANCE SHEET

Market Opportunity

We intend to provide capital for buyout and recapitalization transactions involving small and mid-sized U.S. businesses. We believe that the potential for a large number of buyout and recapitalization transactions involving companies in this size range, coupled with the demands of these companies for flexible sources of acquisition financing, creates an attractive investment environment for us.

Merger and acquisition activity has recovered from the recession of 2001, increasing the demand for acquisition financing. We believe that as the economy has recovered, many small and mid-sized companies have looked to acquisitions as a means of growth, and entrepreneurs have re-entered the market looking for companies to buy. At the same time, private equity and buyout funds have accumulated large amounts of cash and are actively seeking acquisitions, both alone and with other funds.

We also believe small and mid-sized companies have faced increasing difficulty in raising debt and equity capital through the capital markets or through traditional institutional lenders, such as banks. Most small companies and private mid-sized companies are unable to issue public debt due to their relative inability to have their debt rated by national rating agencies, the small size of their offerings, and their corresponding lack of liquidity. We believe this environment has created an opportunity for non-bank lenders, such as business development companies, to provide small and mid-sized companies with more flexible forms of financing, such as mezzanine and subordinated loans combined with preferred stock and warrants to buy common stock.

Our Competitive Advantages

We believe that we have several competitive advantages over other capital providers who provide capital to small and mid-sized companies, including the following:

- The extensive experience and relationships of the senior management team of Gladstone Management, led by Mr. Gladstone and its other investment professionals, who have invested in over 500 companies in more than 25 different industries;

- The flexibility of the Gladstone Group to provide almost any type of capital and deliver customized financing solutions to small and mid-sized companies, which we believe induces small and mid-sized companies with a variety of financing needs to seek capital from the Gladstone Group before going to other capital providers;

- Our ability to provide a one stop shop for financing the acquisitions of small businesses by providing the subordinated debt, mezzanine debt and preferred stock necessary to complete the acquisition;

- The disciplined, value and income-oriented investment approach followed by Gladstone Management underscored by an exhaustive due diligence process; and

- Our ability, as a publicly-traded closed-end management investment company, to reinvest our capital, take a longer term view with respect to our investments and better align our interests with the interests of our portfolio companies management teams.

Risk Factors

An investment in our common stock is subject to a number of risks, which are more fully described in Risk Factors beginning on page 12, including the following:

- We are a new company with no operating history;

- We are dependent on Gladstone Management s key personnel and their access to potential transactions for our future success;

- If we do not invest the proceeds of this offering in a timely manner, our returns to stockholders will be significantly lower;

If our primary investments are deemed not to be qualifying assets, we could lose our status as a business development company or be precluded from investment according to our current business plan;

We operate in a highly competitive market for investment opportunities;

We will be subject to corporate-level income tax if we are unable to qualify as a RIC;

Regulations governing our operation as a business development company will affect our ability to and the way in which we raise additional capital;

We will typically invest in transactions involving acquisitions, buyouts and recapitalizations of companies, which will subject us to the risks associated with change in control transactions;

We have not yet identified any portfolio company investments;

Our portfolio may be concentrated initially in senior secured debt of a limited number of portfolio companies, and we may not be able to execute our long-term investment strategy if we are unable to sell our interests in senior debt and may suffer significant losses if any of our portfolio companies default on their debt obligations;

Our portfolio companies are likely to have debt that ranks equally with, or senior to, our investments in such companies; and

Our incentive fee may induce Gladstone Management to make certain investments, including speculative investments.

Operating and Regulatory Structure

Our investment activities will be managed by Gladstone Management and supervised by our board of directors, a majority of whom are independent of Gladstone Management. Gladstone Management is an investment adviser that is registered under the Investment Advisers Act of 1940, or the Advisers Act. Under our investment advisory and management agreement, we have agreed to pay Gladstone Management an annual base management fee equal to a fixed percentage of our gross assets, as well as an incentive fee based on our performance. Under a separate agreement, we have agreed to make certain payments to Gladstone Administration, a wholly owned subsidiary of Gladstone Management, in return for its administration of our business. See Management Investment Advisory and Management Agreement and Management Administration Agreement.

As a business development company, we will be required to comply with certain regulatory requirements. For example, we will not invest in any portfolio company in which Gladstone Capital or any of its affiliates currently has an investment. However, our affiliate, Gladstone Commercial, may purchase property from, or lease property to, portfolio companies that we do not control under certain circumstances. See Business Our Investments. Also, while we are permitted to incur debt to finance investments, our ability to use debt will be limited in certain significant respects. We have not decided whether, and to what extent, we will finance our portfolio growth by using bank loans or other debt; however, we do not expect to use bank loans or other debt until the proceeds of this offering have been substantially invested. We will be required to offer management assistance to our portfolio companies. See Regulation. We intend to elect to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. See Material U.S. Federal Income Tax Considerations.

Potential Conflicts of Interest

There are potential conflicts of interest which could impact our investment returns. In particular, our executive officers and directors, and the officers and directors of Gladstone Management, serve or may serve as officers, directors or principals of entities that operate in the same or related lines of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to

investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. Moreover, Gladstone Management s investment professionals may establish other investment vehicles which from time to time may have potentially overlapping investment objectives with those that we target. While Gladstone Management generally has broad authority to make investments on behalf of the investment vehicles that it advises, Gladstone Management has adopted investment allocation procedures to address these potential conflicts and, in accordance with these procedures, intends to direct investment opportunities to the member of the Gladstone Group with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of Gladstone Management may face conflicts in the allocation of investment opportunities to other entities managed by Gladstone Management. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other members of the Gladstone Group or investment funds managed by investment managers affiliated with Gladstone Management.

Our Corporate Information

Our administrative offices and our executive officers are located at 1521 Westbranch Drive, Suite 200, McLean, VA 22102, telephone number (703) 287-5800. We have branch offices in Pittsburgh, PA, New York, NY, Chicago, IL, and Morristown, NJ. We expect to open offices in other major cities in the future.

THE OFFERING

Common stock offered by us	12,000,000 shares, excluding 1,800,000 shares of common stock issuable pursuant to the over-allotment option granted to the underwriters. The underwriters will reserve up to 2,000,000 shares of common stock for sale, directly or indirectly, to our directors and employees, their families and certain other parties designated by Gladstone Management at the public offering price less the sales load.
Common stock to be outstanding after this offering	12,000,100 shares, excluding 1,800,000 shares of common stock issuable pursuant to the over-allotment option granted to the underwriters.
Use of proceeds	We plan to invest the net proceeds of this offering in cash acquisitions, changes in control or recapitalizations of small and mid-sized companies in accordance with our investment objectives and the strategies described in this prospectus. We anticipate that substantially all of the net proceeds of this offering will be invested within two years, depending on the availability of appropriate investment opportunities consistent with our investment objectives and other market conditions. We expect that our portfolio will initially consist primarily of senior secured loans because we anticipate that we will be able to invest in such loans more rapidly than in subordinated debt, mezzanine debt and preferred stock. Pending such interim investments, we will invest the net proceeds 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. See Use of Proceeds.
Dividends and distributions	We intend to make monthly cash distributions to our stockholders out of assets legally available for distribution. Our monthly distributions, if any, will be determined by our board of directors. Some distributions in the initial years may be a return of capital.
Taxation	We intend to elect to be treated for federal income tax purposes as a RIC. Accordingly, we generally will pay no corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our 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 Dividends and Distributions.
Dividend reinvestment plan	We have a dividend reinvestment plan for our stockholders. This is an opt in dividend reinvestment plan, meaning that stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Stockholders who do not so elect will receive their dividends in cash. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax

	consequences as stockholders who elect to receive their distributions in cash. See Dividend Reinvestment Plan.
Proposed Nasdaq National Market symbol	GAIN
Trading at a discount	Shares of closed-end investment companies frequently trade at a discount to their net asset value. The possibility that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value.
Anti-takeover provisions	Our board of directors will be 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 Description of our capital stock.
Management arrangements	Gladstone Management will serve as our investment adviser, and Gladstone Administration will serve as our administrator. We have entered into a license agreement with Gladstone Management, pursuant to which Gladstone Management has agreed to grant us a non-exclusive license to use the name Gladstone and the Diamond G logo. For a description of Gladstone Management, Gladstone Administration, the Gladstone Group and our contractual arrangements with these companies, see Management Investment Advisory and Management Agreement, Management Administration Agreement and Management License Agreement.
Available information	After completion of this offering, we will be required to file periodic reports, proxy statements and other information with the SEC. This information will be available at the SEC s public reference room in Washington, D.C. and on the SEC s Internet website at www.sec.gov. We intend to provide much of the same information on our website at www.GladstoneInvestment.com. Information contained on our website is not part of this prospectus and should not be relied upon as such.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Gladstone Investment, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Investment.

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)	7.00%(1)
Offering expenses borne by us (as a percentage of offering price)	0.70%(2)
Dividend reinvestment plan expenses	None(3)
Total stockholder transaction expenses (as a percentage of offering price)	7.72%
Estimated annual expenses (as a percentage of net assets attributable to common stock):	
Management fees	2.00%(4)
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)	0.00%(5)
Interest payments on borrowed funds	None(6)
Other expenses	0.20%(7)
Total annual expenses (estimated)	2.20%(4)(7)

(1) The sales load (underwriting discounts and commissions) with respect to shares sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering.

(2) Amount reflects estimated offering expenses of approximately $1,300,000.

(3) The expenses of the dividend reinvestment plan are included in Other expenses.

(4) Our base management fee is based on our gross assets. Gross assets 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. However, until March 31, 2006 the base management fee calculation will exclude uninvested cash proceeds from this offering, resulting in a lower fee than indicated by the examples set forth herein. See Management Investment Advisory and Management Agreement and footnote 5 below.

(5) Based on our current business plan, we do not expect to invest fully the net proceeds from this offering for up to two years, and we expect that during the first year after completion of this offering we will not have any capital gains and that our interest income will not exceed the quarterly hurdle rate discussed below. As a result, we do not anticipate paying any incentive fees in the first year after the completion of this offering. In addition, until March 31, 2006 the base management fee calculation will exclude uninvested cash proceeds from this offering, resulting in a lower fee than indicated by the examples set forth herein. Once we have fully invested the net proceeds of this offering, we expect that our results of operations may obligate us to pay incentive fees. The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee will be payable quarterly in arrears, and will equal 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide Gladstone Management with 20% of our pre-incentive fee net investment income

as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee will be 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 incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee (see footnote 4 above). The capital gains-based incentive fee will equal 20% of our net realized capital gains, if any, computed net of all realized capital losses and unrealized capital depreciation and will be payable at the end of each calendar year beginning after March 31, 2006.

Examples of how the incentive fee would be calculated are as follows:

Assuming pre-incentive fee net investment income of 0.55%, there would be no income-based incentive fee because such income would not exceed the hurdle rate of 1.75%.

Assuming pre-incentive fee net investment income of 2.00%, the income-based incentive fee would be as follows:

$= 100\% \times (2.00\% - 1.75\%)$
$= 0.25\%$

Assuming pre-incentive fee net investment income of 2.30%, the income-based incentive fee would be as follows:

= (100% × (catch-up : 2.1875% - 1.75%)) + (20% × (2.30% - 2.1875%))
$= (100\% \times 0.4375\%) + (20\% \times 0.1125\%)$
$= 0.4375\% + 0.0225\%$
$= 0.46\%$

Assuming net realized capital gains of 6% and realized capital losses and unrealized capital depreciation of 1%, the capital gains-based incentive fee would be as follows:

$= 20\% \times (6\% - 1\%)$
$= 20\% \times 5\%$
$= 1\%$

For a more detailed discussion of the calculation of the two-part incentive fee, see Management Investment Advisory and Management Agreement.

(6) We do not plan to incur any indebtedness, or to pay interest in respect thereof, before the proceeds of this offering are substantially invested. We have not decided whether, and to what extent, we will finance investments using debt; however, in the future, we do expect to use debt to finance our investments.

Assuming we borrowed for investment purposes an amount equal to 40% of our total assets (including such borrowed funds) and that the annual interest rate on the amount borrowed is 3%, our total annual expenses (estimated) would be as follows:

Management fees	2.00%
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)	0.00%
Interest payments on borrowed funds	1.20%
Other expenses	0.10%
Total annual expenses (estimated)	3.30%

(7) Includes organizational expenses (which are minimal and non-recurring) and our overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by Gladstone Administration in performing its obligations under the administration agreement. See Management Administration Agreement.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no leverage and that our annual operating expenses would remain at the levels set forth in the table above.

	1 year	3 years	5 years	10 years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 97.79	$ 140.70	$ 186.06	$ 311.03

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The two-part incentive fee under the investment advisory and management agreement, which, assuming a 5% annual return, would either not be payable or have an insignificant impact on the expense amounts shown above, is not included in the example. This illustration assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors after such expenses, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

This example 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, if any, and other expenses) may be greater or less than those shown.

RISK FACTORS

Before you invest in shares of our common stock, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide whether to make an investment in our common stock. The risks set out below are not the only risks we face. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating To Our Business And Structure

We are a new company with no operating history.

We were incorporated in Delaware on February 18, 2005 and have not yet commenced operations. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objectives and that the value of your investment could decline substantially. We anticipate that it will take us up to two years to invest substantially all of the net proceeds of this offering. During this period, we will invest in temporary investments, such as cash and cash equivalents, and then senior secured loans, all of which we expect will earn yields substantially lower than the interest income that we anticipate receiving with respect to investments in subordinated debt, mezzanine debt, preferred stock and other types of investments we may make. As a result, we may not be able to pay any dividends during this period or, if we are able to do so, such dividends may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested.

We are dependent on Gladstone Management s key personnel and on their access to potential transactions for our future success.

Our business is dependent in large part on our continued access to the experience and network of business contacts of the senior management of Gladstone Management, including Messrs. Gladstone, Brubaker and Stelljes. For a description of the senior management team, see Management. We will also depend, to a significant extent, on Gladstone Management s investment professionals for analysis of opportunities and to locate investment opportunities. The senior management of Gladstone Management will evaluate, negotiate, structure, close and monitor our investments. The departure of any of the senior managers of Gladstone Management, or of a significant number of the investment professionals or partners of Gladstone Management, could have a material adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Gladstone Management will remain our investment adviser or that we will continue to have access to Gladstone Management s investment professionals or its information and deal flow.

Our financial condition and results of operation will depend on our ability to manage future growth effectively.

Our ability to achieve our investment objectives will depend on our ability to grow, which in turn will depend on Gladstone Management s ability to identify, invest in, and monitor companies that meet our investment criteria.

Accomplishing this result on a cost-effective basis will largely be a function of Gladstone Management s structuring of the investment process, its ability to provide competent, attentive and efficient services to us, and our access to financing on acceptable terms. The executive officers of Gladstone Management will have substantial responsibilities under the investment advisory and management agreement, as well as in connection with their roles as officers of other companies within the Gladstone Group. They may also be called upon to provide managerial assistance to our portfolio companies. These demands on their time may distract them or slow the rate at which they are able to invest our assets. In order for us to grow, Gladstone Management will need to hire, train, supervise, and manage new investment professionals and supporting employees. However, we can offer no assurance that

Gladstone Management will be able to find and/or hire new investment professionals or supporting employees or that any such employees will contribute to the work of Gladstone Management. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

If we do not invest the proceeds of this offering in a timely manner, our returns to stockholders will be significantly lower.

We have estimated that it may take us up to two years to invest all the cash proceeds from this offering in the types of investments we intend to make. We can give no assurance that we will be successful in meeting that estimate. To the extent that it takes us longer to invest the cash proceeds from this offering, the returns to stockholders are likely to be less than if we invested the proceeds over the time period we have allotted.

If our primary investments are deemed not to be qualifying assets, we could lose our status as a business development company or be precluded from investing according to our current business plan.

If we are to maintain our status as a business development company, we must not acquire any assets other than qualifying assets unless, at the time of and after giving effect to each such acquisition, at least 70% of our total assets are qualifying assets. If we acquire mezzanine loans or dividend-paying equity securities from an issuer that has outstanding marginable securities at the time we make an investment, these acquired assets cannot be treated as qualifying assets. See Regulation Qualifying Assets. This results from the definition of eligible portfolio company under the 1940 Act, which in part looks to whether a company has outstanding marginable securities.

Amendments promulgated in 1998 by the Board of Governors of the Federal Reserve System to Regulation T under the Securities Exchange Act of 1934, as amended, or the Exchange Act, expanded the definition of marginable security to include any non-equity security. These amendments have raised questions as to whether a private company that has outstanding debt securities would qualify as an eligible portfolio company.

We believe that the junior debt and equity instruments that we expect to make should constitute qualifying assets because the privately held companies in which we invest will generally not, at the time of our investment, have outstanding marginable securities. Until the questions raised by the amendments to Regulation T have been clarified through SEC rulemaking or addressed by legislative, administrative, or judicial action, we intend to treat as qualifying assets only those mezzanine loans that are not investment grade, do not have a public secondary market, and are issued by a private issuer that does not have outstanding a class of margin-eligible securities at the time of our investment. Likewise, we will treat equity securities issued by a portfolio company as qualifying assets only if such securities are issued by a private company that has no marginable securities outstanding at the time we purchase such securities.

To date, we do not believe that either the SEC or its staff has taken any position with respect to our analysis of the issues discussed above, and neither the SEC nor its staff has indicated that it concurs with our analysis. We intend to adjust our investment focus as needed to comply with and/or take advantage of any future administrative position, judicial decision or legislative action. The SEC has recently proposed amendments to the rules concerning business development companies that would clarify that, among other things, companies that do not have a class of securities listed on an exchange or Nasdaq would be considered eligible portfolio companies.

Unless and until the proposed rules described above are adopted by the SEC, if there were a court ruling or regulatory decision that conflicted with our interpretations, we could lose our status as a business development company or be precluded from investing in the manner described in this prospectus. This in turn could cause us to lose our status as a RIC. Any of these results would have a material adverse effect on our ability to invest in the manner described in this prospectus, on our operating results, financial condition and ability to pay dividends, and on the value of our common stock. See Regulations governing our operation as a business development company will affect our ability to and the way in which we raise additional capital.

Such a ruling or decision also may require us to dispose of investments that we made based on our interpretation of Regulation T. Such dispositions could have a material adverse effect on our stockholders. We may need to dispose of such investments quickly, which would make it difficult to dispose of such investments on favorable terms. In addition, because these types of investments will generally be illiquid, we may have difficulty finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss. See The lack of liquidity in our investments may adversely affect our business.

We operate in a highly competitive market for investment opportunities.

A number of entities will compete with us for investments in small and mid-sized companies. We will compete with public and private buyout funds, commercial and investment banks, commercial financing companies, and, to the extent they provide an alternative form of financing, hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical, and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which would allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. The competitive pressures we face could have a material adverse effect on our business, financial condition, and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective.

We will not seek to compete primarily based on the interest rates we will offer, and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer.

We may lose investment opportunities if we do not match our competitors pricing, terms, and structure. If we match our competitors pricing, terms, and structure, we may experience decreased net interest income and increased risk of credit loss.

We will be subject to corporate-level income tax if we are unable to qualify as a RIC.

To qualify as a RIC under the Code, we must meet certain income source, asset diversification, and annual distribution requirements. The annual distribution requirement for a RIC is satisfied if we distribute to our stockholders on an annual basis at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Because we may use debt financing in the future, we may be subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level income tax. To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to qualify as a RIC for any reason and remain or become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the amount of our distributions. Such a failure would have a material adverse effect on our stockholders.

Regulations governing our operation as a business development company will affect our ability to and the way in which we raise additional capital.

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Senior securities are defined by the 1940 Act to include bonds, debentures, notes or similar obligations or instruments that are securities and evidence indebtedness and stock of a class having priority over any other class as to distribution of assets or payment of dividends. Under the provisions of the 1940 Act, we will be permitted, as a business development company, to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock or warrants, options, or rights to acquire our common stock at a price below the current net asset value of the common stock if our board of directors determines that such sale is in the best interests of Gladstone Investment and its stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount).

In addition to issuing securities to raise capital as described above, we may in the future seek to securitize certain of our assets to generate cash for funding new investments. Securitization involves our creating a wholly-owned subsidiary and contributing a pool of loans to the subsidiary, which then would deposit the loans to a single purpose trust. The trust would then typically sell a class of investment grade interests to the public, and we would retain a residual portion of the equity in the securitized pool of loans. The declaration of trust for the securitization entity would typically provide for preferential distributions of interest, principal and liquidation proceeds to the holders other than the holder of the residual equity. Accordingly, in a securitization transaction, the residual equity that we would retain would typically bear greater risk than if we held all the loans comprising the securitized pool in their entirety. An inability to successfully securitize our loan portfolio could limit our ability to grow our business, fully execute our business strategy, and decrease our earnings, if any. Moreover, the successful securitization of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and more apt to generate losses.

If we issue senior securities, including debt, we will be exposed to additional risks, including the typical risks associated with leverage.

We will be exposed to increased risk of loss if we incur debt to make investments. If we do incur debt, a decrease in the value of our investments would have a greater negative impact on the value of our common stock than if we did not use debt.

Our ability to pay dividends would be restricted if our asset coverage ratio was not at least 200%, and any amounts that we would use to service our indebtedness would not be available for dividends to our common stockholders.

It is likely that any senior debt securities we issue will be governed by an indenture or other instrument containing covenants restricting our operating flexibility.

We, and indirectly our stockholders, will bear the cost of issuing and servicing such securities.

Any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock.

We will be exposed to risks associated with changes in interest rates.

General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on investment objectives and our rate of return on invested capital. In addition, an increase in interest rates would make it more expensive to use debt to finance our investments.

Many of our portfolio investments will be recorded at fair value as determined in good faith by our board of directors based on recommendations by Standard & Poor s Evaluation Service, who recommends values using its own methodology; this may result in uncertainty as to the value of our portfolio investments.

A large percentage of our portfolio investments will be in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our board of directors will determine the fair value of these securities quarterly, and will use the recommendations of Standard & Poor s Evaluation Service (S&P) to determine the value of many of our debt securities. The types of factors that may be considered in determining the fair value of our investments include the nature and realizable value of any collateral, the portfolio company s earnings and cash flows and its ability to make payments on its obligations, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow, and other relevant factors. Because such valuations, particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time, and may be based on estimates, our determinations of fair value may differ materially from the values that might have resulted from a readily available market for these securities. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities. At this time S&P will only evaluate the debt portion of our investments, and our board of directors will establish the fair value of the equity securities we may hold without the evaluation of S&P.

The lack of liquidity in our investments may adversely affect our business.

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of these securities will be subject to legal and other restrictions on resale and will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize substantial book losses upon liquidation. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, Gladstone Management, or our respective officers, employees or affiliates have material non-public information regarding such portfolio company.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rates payable on the debt securities we acquire, the default rates on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

There are significant potential conflicts of interest which could impact our investment returns.

Our executive officers and directors, and the officers and directors of our investment adviser, Gladstone Management, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Gladstone, our chairman and chief executive officer, is and, following this offering, will continue to be chairman of the board and chief executive officer of Gladstone Management, Gladstone Capital and Gladstone Commercial with management responsibilities for the other members of the Gladstone Group. In addition, Mr. Brubaker, our vice chairman and secretary, is and, following this offering, will continue to be a either vice chairman or president and secretary of Gladstone Management, Gladstone Capital and Gladstone Commercial. Moreover, we may establish other investment vehicles which from time to time may have potentially overlapping investment objectives with those of Gladstone Investment and accordingly may invest in, whether principally or secondarily, asset classes similar to those targeted by Gladstone Investment. While Gladstone Management generally has broad authority to make investments on behalf of the investment vehicles that it advises, Gladstone Management has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the member of the Gladstone Group with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of Gladstone Management may face conflicts in the allocation of investment opportunities to other entities managed by Gladstone Management. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other members of the Gladstone Group or investment funds managed by investment managers affiliated with Gladstone Management.

While we will not invest in any portfolio company in which any of the Gladstone Group companies currently has an investment, our affiliate, Gladstone Commercial, may purchase property from or lease property to portfolio companies that we do not control under certain circumstances. We may pursue such transactions only if (i) the portfolio company is not controlled by us or any of our affiliates, (ii) the portfolio company satisfies the tenant underwriting criteria or owns real estate that meets the lease underwriting criteria of Gladstone Commercial, and (iii) the transaction is approved by a majority of our independent directors and a majority of the independent directors of Gladstone Commercial. We expect that any such negotiations between Gladstone Commercial and our portfolio companies would result in lease terms consistent with the terms that the portfolio companies would be likely to receive were they not portfolio companies of ours. However, if Gladstone Commercial provides a lease to a current or prospective portfolio company of ours, it is likely that there will be a conflict of interest in connection with such a transaction. There is a risk that, for Gladstone Commercial to provide a lease to a portfolio company, there could be situations where we enter into a transaction that is riskier than we would customarily make in order to enable Gladstone Commercial, or another affiliate, to provide the lease portion of the financing; this carries a greater risk of default. If any of these risks were to materialize, it could have a material adverse effect on our ability to generate cash flow to make distributions to stockholders.

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

In the course of our investing activities, we will pay management and incentive fees to Gladstone Management and will reimburse Gladstone Administration for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through our investors themselves making direct investments. As a result of this arrangement, there may be times when the management team of Gladstone Management has interests that differ from those of our stockholders, giving rise to a conflict.

Gladstone Management will receive a quarterly incentive fee based, in part, on our pre-incentive fee net investment income, if any, for the immediately preceding calendar quarter. This income-based portion of the incentive fee is subject to a quarterly hurdle rate before providing an income incentive fee return to Gladstone Management. Because the hurdle rate is fixed and is based in relation to current interest rates, which are currently relatively low on a historical basis, if interest rates rise, it would become easier for our investment income to exceed the hurdle rate and, as a result, more likely that Gladstone Management will receive an income-based incentive fee than if interest rates on our investments remained constant or decreased. Subject to the receipt of any requisite stockholder approval under the 1940 Act, our board of directors may readjust the hurdle rate by amending the investment advisory and management agreement.

We have entered into a license agreement with Gladstone Management, pursuant to which Gladstone Management has agreed to grant us a non-exclusive license to use the name Gladstone and the Diamond G logo. Under the license agreement, we will have the right to use the Gladstone name and the Diamond G logo as long as Gladstone Management remains our investment adviser.

Changes in laws or regulations, or interpretations thereof, or our failure to comply with laws, regulations or interpretations governing our operations may adversely affect our business.

We and our portfolio companies will be subject to laws and regulations at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations, or interpretations thereof, or our failure to comply with any law, regulation or interpretation, could have a material adverse affect on our business.

Risks Related To Our Investments

We will typically invest in transactions involving acquisitions, buyouts and recapitalizations of companies, which will subject us to the risks associated with change in control transactions.

Our strategy includes making debt and equity investments in companies in connection with acquisitions, buyouts and recapitalizations, which will subject us to the risks associated with change in control transactions. Change in control transactions often present a number of uncertainties. Companies undergoing change in control transactions often face challenges retaining key employees, maintaining relationships with customers and suppliers. While we hope to avoid many of these difficulties by participating in transactions where the management team is retained and by conducting thorough due diligence in advance of our decision to invest, if our portfolio companies experience one or more of these problems, we may not realize the value that we expect in connection with our investments which would likely harm our operating results and financial condition.

We may not realize gains from our equity investments.

When we invest in mezzanine or senior secured loans, we may acquire warrants or other equity securities as well. In addition we may invest in preferred and common stock. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

We have not yet identified any portfolio company investments.

We have not yet identified any potential investments for our portfolio and, thus, you will not be able to evaluate any specific portfolio company investment prior to purchasing shares of our common stock. Additionally, our investments will be selected by Gladstone Management and our stockholders will not have input into such investment decisions. Both of these factors will increase the uncertainty, and thus the risk, of investing in our shares.

Our portfolio may be concentrated initially in senior secured debt of a limited number of portfolio companies, and we may not be able to execute our long-term investment strategy if we are unable to sell our interests in senior debt and may suffer significant losses if any of our portfolio companies default on their debt obligations.

We may initially invest the net proceeds of this offering in the senior secured syndicated debt of a limited number of companies. Our strategy is to initially invest in senior secured syndicated debt, which generally yields a lower rate of return than subordinated and mezzanine debt, which is our longer term preferred investment. We will seek to sell our interests in senior debt securities and redeploy the proceeds into higher yielding debt and preferred securities. Our inability to sell interests in senior secured syndicated debt and redeploy the proceeds could materially adversely affect our returns. Moreover, if one or more of our small number of investments performs poorly or if we need to write down the value of any one investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

Our investments in prospective portfolio companies may be risky, and you could lose all or part of your investment.

Investing in small and mid-sized companies involves a number of significant risks, including:

- these companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us collecting on any guarantees we may have obtained in connection with our investment;

- these companies typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors actions and market conditions, as well as general economic downturns;

- these companies are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us; and

- these companies generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion, or maintain their competitive positions. In addition, our executive officers, directors, and Gladstone Management may, in the ordinary course of business, be named as defendants in litigation arising from our investments in these portfolio companies.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to make interest or principal payments on our loans during these periods. Therefore, our under-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and could harm our operating results.

A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, acceleration of the maturity of its senior and other loans and foreclosure on its assets pledged as collateral for such loans, which could trigger cross-defaults under other agreements and jeopardize our portfolio company s ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if one of our portfolio companies were to be forced to seek bankruptcy protection, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt holdings and subordinate all or a portion of our claim to those of other creditors.

An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies.

We will invest primarily in privately-held companies. Generally, little public information exists about these companies, and we will be required to rely on the ability of Gladstone Management s investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately-held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could affect our investment returns.

Our portfolio companies are likely to have debt that ranks equally with, or senior to, our investments in such companies.

We intend to invest primarily in subordinated debt, mezzanine debt and preferred equity securities issued by our portfolio companies in connection with buyouts or recapitalizations of these companies. Portfolio companies undergoing these types of transactions usually will have other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution with respect to our investment. After repaying its senior creditors, our portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization, or bankruptcy of the relevant portfolio company. In addition, we may not be in a position to control any portfolio company by investing in its debt securities. Therefore, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree, and the management of such company, as representatives of the holders of their equity securities, may take risks or otherwise act in ways that do not serve our interests as debt investors.

Our incentive fee may induce Gladstone Management to make certain investments, including speculative investments.

The incentive fee payable by us to Gladstone Management may create an incentive for Gladstone Management to make investments on our behalf that are more speculative than Gladstone Management would make in the absence of such compensation arrangement. The way in which the incentive fee payable to Gladstone Management is determined, which is calculated as a percentage of the return on invested capital, may encourage Gladstone Management to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage carries with it the risk of our default on our debt obligations, which could result in premature sale or liquidation of our assets and otherwise adversely affect the holders of our common stock, including investors in this offering. In addition, Gladstone Management will receive the incentive fee based, in part, upon net capital gains realized on our investments. Unlike the portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, Gladstone Management may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns. Moreover, once an incentive fee on capital gains has been paid to Gladstone Management, it is not subject to being returned in the event we realize capital losses in the future.

The incentive fee payable by us to Gladstone Management also may create an incentive for Gladstone Management to invest on our behalf in instruments, such as zero coupon bonds, that may be higher yielding but may have a deferred interest feature. Under these investments, we would accrue the interest over the life of the investment but would not receive the cash income from the investment until the end of the term. The income-based portion of our net investment that is used to calculate the income portion of our investment fee, however, includes accrued interest. For example, accrued interest, if any, on our investments in any zero coupon bonds will be included in the calculation of our incentive fee, even though we will not receive any cash interest payments in respect of payment on any such bonds until their maturity dates. Thus, a portion of this incentive fee would be based on income that we have not yet received in cash.

Our investments in securities of companies with foreign operations may involve significant risks in addition to the risks inherent in investments in companies primarily based in the U.S.

Our investment strategy does not contemplate potential investments in debt or equity securities of foreign companies, however, some of our portfolio companies may have operations outside the United States. Investing in companies with a significant presence outside the U.S. may expose us to additional risks not typically associated with investing in companies whose operations are primarily conducted in the U.S. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, fluctuations in foreign currency exchange rates, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers, and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards, and greater price volatility.

Although most of our investments will be U.S. dollar-denominated, we may make investments denominated in foreign currencies, most likely Canadian dollars, that would subject us to the risk that the value of the foreign currency will change in relation to the U.S. dollar. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that such strategies will be effective.

Our hedging activities may not fully protect us from adverse changes in exchange rates or interest rates.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against a situation of an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

The success of our hedging transactions will depend on our ability to correctly predict movements in currency exchange and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-

U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

Risks Relating To This Offering

There is a risk that you may not receive dividends or that our dividends may not grow over time.

We intend to make distributions on a monthly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions.

Provisions of the Delaware General Corporation Law and of our certificate of incorporation and bylaws could restrict a change in control and have an adverse impact on the price of our common stock.

We are subject to provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for three years unless the holder s acquisition of our stock was either approved in advance by our board of directors or ratified by the board of directors and stockholders owning two-thirds of our outstanding stock not owned by the acquiring holder. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board of directors, they would apply even if the offer may be considered beneficial by some stockholders.

We have also adopted other measures that may make it difficult for a third party to obtain control of us, including provisions of our certificate of incorporation classifying our board of directors in three classes serving staggered three-year terms, and provisions of our certificate of incorporation authorizing our board of directors to induce the issuance of additional shares of our stock. These provisions, as well as other provisions of our certificate of incorporation and bylaws, may delay, defer, or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

Investing in our shares may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options, volatility, or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our shares may not be suitable for someone with a lower tolerance for risk.

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. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
- loss of RIC status;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

- departure of Gladstone Management s key personnel;
- operating performance of companies comparable to us;
- general economic trends and other external factors; and
- loss of a major funding source.

We may allocate the net proceeds from this offering in ways with which you may not agree.

We will have significant flexibility in investing the net proceeds of this offering and may use the net proceeds from this offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

Prior to this offering, there has been no public market for our common stock, and we cannot assure you that the market price of our shares will not decline following the offering.

We cannot assure you that a trading market will develop for our common stock after this offering or, if one develops, that such trading market can be sustained. Shares of companies offered in an initial public offering often trade at a discount to the initial offering price due to underwriting discounts and related offering expenses. Also, shares of closed-end investment companies frequently trade at a discount from net asset value. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade at, above, or below net asset value.

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

Upon consummation of this offering, we will have 12,000,100 shares of common stock outstanding (or 13,800,100 shares of common stock if the over-allotment option is fully exercised). Of these shares, 12,000,000 shares of our common stock (or 13,800,000 shares of common stock if the over-allotment is fully exercised) sold in this offering will be freely tradable without restriction or limitation under the Securities Act, less that number of shares purchased by our affiliates. Any shares purchased in this offering by our affiliates will be subject to the public information, manner of sale and volume limitations of Rule 144 under the Securities Act. Following this offering, sales of substantial amounts of our common stock or the availability of such shares for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so.

FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this prospectus involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;

- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

We use words such as "anticipates," "believes," "expects," "intends" and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this prospectus.

We have based the forward-looking statements included in this prospectus on information available to us on the date of this prospectus, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, regardless of whether there is new information, knowledge of future events, or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

We note that the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995 does not apply to statements made in this prospectus.

DISCUSSION OF MANAGEMENT S EXPECTED OPERATING PLANS

Overview

We are a newly organized, closed-end management investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. Our investment objective is to generate both current income and capital gains through debt and equity investments. We intend to invest primarily in subordinated loans, mezzanine debt, preferred stock and warrants to purchase common stock of small and mid-sized companies in connection with buyouts and other recapitalizations. We may also invest in senior secured loans and common stock. From time to time, we may also invest in public companies that are thinly traded and senior and subordinated syndicated loans. Prior to this offering, we have not conducted any significant operating activities. This offering will significantly increase our capital resources.

Revenues

We plan to generate revenue in the form of interest payable on the debt securities and dividends on preferred and common stock that we hold. We plan to generate capital gains, if any, on warrants, preferred stock or other equity interests that we may acquire in portfolio companies. We expect our debt investments, whether in the form of subordinated debt, mezzanine loans or senior secured loans, to have terms of five to ten years and these investments may bear interest at fixed or floating rates. Interest on debt securities will generally be payable monthly, with the amortization of principal generally being deferred for several years from the date of the initial investment for subordinated and mezzanine debt. The principal amount of the debt securities and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance, and possibly consulting fees. Any such fees will be generated in connection with our investments and recognized as earned.

Expenses

Our primary operating expenses will be investment management fees and overhead expenses, including our allocable portion of overhead under the administration agreement. Our investment management fee will compensate Gladstone Management for its work in identifying, evaluating, negotiating, closing, and monitoring our investments. See Management Investment Advisory and Management Agreement, and Management Administration Agreement. We will bear all other costs and expenses of our operations and transactions, including those relating to:

- our organization and this offering;
- calculating our net asset value (including the cost and expenses of any independent valuation firm we engage);
- expenses incurred by Gladstone Management payable to third parties, including agents, consultants, or other advisors in monitoring our financial and legal affairs;
- monitoring our investments and performing due diligence on our prospective portfolio companies;
- interest payable on debt incurred, if any, to finance our investments;
- future offerings of our common stock and other securities;
- investment advisory and management fees;
- fees payable to third parties, including agents, consultants, or other advisors relating to, or associated with, evaluating and making investments;
- transfer agent and custodial fees;

registration fees;

listing fees;

taxes;

independent directors fees and expenses;

costs of preparing and filing reports or other documents with the SEC;

the costs of any reports, proxy statements, or other notices to stockholders, including printing costs;

our allocable portion of the fidelity bond, directors and officers errors and omissions liability insurance, and any other insurance premiums;

direct costs and expenses of administration, including auditor and legal costs; and

all other expenses incurred by us or Gladstone Administration in connection with administering our business, such as our allocable portion of overhead under the administration agreement, including rent and our allocable portion of the salaries and benefits expense of our chief financial officer, chief compliance officer and controller and their respective staffs.

Management of Foreign Currency Exchange and Interest Rate Risks

To the extent that any of our loans are denominated in a currency other than U.S. dollars, we may enter into currency hedging contracts to reduce our exposure to fluctuations in currency exchange rates. We may also enter into interest rate hedging agreements. Such hedging activities, which will be subject to compliance with applicable legal requirements, may include the use of futures, options, and forward contracts. We will bear any costs incurred in connection with entering into and settling such contracts.

Financial Condition, Liquidity and Capital Resources

We will generate cash primarily from the net proceeds of this offering and any future offerings of securities, as well as through cash flows from operations, including interest and dividends earned on investments in our portfolio companies and interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. In the future, we may also fund a portion of our investments through borrowings from banks and issuances of senior securities. We do not expect to incur such indebtedness until the proceeds of this offering have been substantially invested. In the future, we may also securitize a portion of our investments in debt securities or other assets. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock. Immediately after this offering, we expect to have cash resources of approximately $166 million (approximately $191 million if the underwriters over-allotment option is exercised in full) and no indebtedness. See Use of Proceeds.

Dividend Policy

In order to qualify as a RIC and to avoid corporate-level tax on our income, we must distribute to our stockholders at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, on an annual basis out of the assets legally available for such distributions. We intend to pay dividends and distributions on a monthly basis. In addition, we will also have the opportunity to distribute any realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) to stockholders, or we may retain those gains (after paying the appropriate capital gain taxes) and use them to make additional investments. Our board of directors will make a determination each year regarding the payment of any capital gains dividends. Finally, dividends and distributions must be declared in advance of the period in which they are earned. For example, dividends must be declared before the close of the end of the year. However, it is often difficult to predict the exact amount of taxable earnings for the year until the audit of our financial statements is completed six or more weeks after the end of the year. If we do not pay out sufficient dividends, it is possible that we would not qualify as a RIC. See Dividends and Distributions. In order to insure that we pay out a sufficient amount of our taxable earnings to qualify as a RIC, our board of directors may declare a distribution that is large enough to insure that we meet the test of paying out sufficient dividends in order to maintain its RIC status. In paying out a large enough distribution, we may pay out more than our earnings and, in such cases, a portion of the distribution will be a return of capital rather than a dividend.

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A distribution that is a return of capital is effectively funded by, and is a return of, a portion of the net proceeds of this offering, and not a payment of current or accumulated earnings and profits. For U.S. income tax purposes, distributions in excess of our earnings and profits will generally be nontaxable to U.S. stockholders to the extent of their adjusted tax basis in our common stock, and any additional amounts would be taxable as capital gain. See Material U.S. Federal Income Tax Considerations Taxation of U.S. Stockholders.

Section 19(a) of the 1940 Act and Rule 19a-1 thereunder, require us to provide a written statement accompanying payment from any source other than our income that adequately discloses the source or sources of such payment. Thus, if our capital were the source of a distribution, and the payment amounted to a return of capital, we would be required to provide written notice to that effect. Nevertheless, stockholders who periodically receive distributions from us may be under the impression that such payments are made from our income, when, in fact, they are not. Accordingly, stockholders should carefully read any written disclosure accompanying a distribution and should not assume that the source of payment is our income.

Contractual Obligations

We have entered into three contracts under which we have material future commitments: the investment advisory and management agreement, pursuant to which Gladstone Management has agreed to serve as our investment adviser and make available on our behalf managerial assistance to our portfolio companies; the administration agreement, pursuant to which Gladstone Administration has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations; and a license agreement with Gladstone Management, pursuant to which Gladstone Management has agreed to grant us a non-exclusive license to use the name Gladstone and the Diamond G logo. Payments under the investment advisory and management agreement in future periods will consist of (1) a base management fee based on a percentage of the value of our Gross Assets and (2) a two-part incentive fee based on our performance. Payments under the administration agreement will be equal to an amount based upon our allocable portion of overhead and other expenses incurred by Gladstone Administration in performing its obligations under the administration agreement, including rent, technology systems, insurance and our allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer and controller and their respective staffs. See Management Investment Advisory and Management Agreement, Management Administration Agreement and Management License Agreement. Each of these contracts may be terminated by either party without penalty on 60 days written notice to the other. Further, although our chief financial officer, chief compliance officer and controller will have certain primary duties and responsibilities to Gladstone Investment, they will also perform duties for other companies in the Gladstone Group.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of 12,000,000 shares of our common stock in this offering will be approximately $166 million (or approximately $191 million if the underwriters fully exercise their over-allotment option), in each case assuming an initial public offering price of $15.00 per share, after deducting the sales load and estimated organization and offering expenses of approximately $1.3 million payable by us.

We plan to invest the net proceeds of this offering in portfolio companies in accordance with our investment objective and strategies. We anticipate that substantially all of the net proceeds of this offering will be used for the above purposes within two years, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. We expect that our portfolio will initially consist primarily of senior secured loans because we anticipate that we will be able to invest in such loans more rapidly than we can invest in subordinated debt, mezzanine debt and preferred stock. Pending either type of investments, we will invest the net proceeds 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. The management fee payable by us will be reduced until March 31, 2006 by excluding from the calculation of the fee uninvested cash and cash equivalents resulting from this offering. See Regulation Temporary Investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

DIVIDENDS AND DISTRIBUTIONS

We intend to distribute monthly dividends to our stockholders. Our monthly dividends, if any, will be determined by our board of directors.

To maintain our RIC status, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we currently intend to distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under Material U.S. Federal Income Tax Considerations. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions; if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

Since we will declare dividends prior to the end of each quarter and prior to the end of the tax year, it will be difficult for us to estimate how much of the dividend will come from ordinary income, capital gains, and returns of capital. The exact character of the distribution will not be known until the final books and records of the company are audited by our independent accounting firm. During the year, we will estimate the source of funds for the dividends and distributions, but a stockholder cannot rely on that interim estimate. Only the final year end determination as reported on the IRS form 1099 should be used by each stockholder.

We maintain an opt in dividend reinvestment plan for our common stockholders. As such, if we declare a dividend, stockholders cash dividends will not be automatically reinvested in additional shares of our common stock, unless they specifically opt in to the dividend reinvestment plan; otherwise, the stockholders will receive cash dividends. See Dividend Reinvestment Plan.

CAPITALIZATION

The following table sets forth (1) our actual capitalization as of March 31, 2005 and (2) our capitalization as adjusted to reflect the effects of the sale of our common stock in this offering at an initial public offering price of $15.00 per share, after deducting the sales load and organizational and offering expenses payable by us. You should read this table together with Use of Proceeds included elsewhere in this prospectus. We have elected to have our fiscal year end on March 31.

	As of March 31, 2005 (unaudited)	
	Actual	**As Adjusted(1)**
Assets:		
Cash and cash equivalents	$ 3,636	$ 166,103,636
Total assets	$ 51,500	$ 166,151,500
Stockholders equity:		
Common stock, par value $0.001 per share; 100,000,000 common shares authorized, 100 shares outstanding, actual; 12,000,100 shares outstanding, as adjusted	$ 0	$ 12,000
Capital in excess of par value	1,500	166,089,500
Total stockholders equity	$ 1,500	$ 166,101,500

(1) Does not include the underwriters over-allotment option of 1,800,000 shares.

BUSINESS

Gladstone Investment

We are a newly organized, closed-end management investment company that has filed an election to be treated as a business development company under the 1940 Act. Our primary investment objective is to generate both current income and capital appreciation through debt and equity investments that we make in companies that are undergoing a buyout or other recapitalization. We anticipate that our portfolio will be comprised primarily of investments in long-term subordinated securities consisting of subordinated debt, mezzanine loans, preferred stock and warrants to buy common stock, in most cases issued by private, small and mid-sized companies. Our investments may also include senior loans and common stock. From time to time, we may also invest in public companies that are thinly traded and senior and subordinated syndicated loans.

Our primary investment focus will be situations involving acquisitions, buyouts, and recapitalizations of small and mid-sized companies with established management teams. We expect that our investments will generally range between $10 million and $30 million each, although this investment size may vary proportionately as the size of our capital base changes. We expect to have opportunities for both sole and co-investment, and we expect to invest by ourselves and jointly with other buyout funds, depending on the opportunity. If we are participating in an investment with one or more co-investors, then our investment is likely to be smaller than if we are investing alone.

We initially intend to invest some of the proceeds in senior secured syndicated loans, since these investments typically may be made more quickly than investments in companies undergoing a buyout or recapitalization. We intend to employ this strategy in order to more quickly invest our initial capital to generate current income. Senior secured syndicated loans typically involve a number of banks or other financial institutions and are generally more marketable than loans that are not syndicated. We believe we will be able to sell our interests in senior secured syndicated loans and reinvest the proceeds in subordinated debt, mezzanine debt, preferred stock and other higher yielding investments when such investment opportunities are available. While we expect our portfolio initially to consist primarily of senior secured loans, over time we expect that it will consist primarily of subordinated debt, mezzanine debt and preferred stock. We anticipate making between 12 and 24 investments, consisting of some combination of senior debt, subordinated debt, mezzanine debt and preferred stock, in order to invest all the net proceeds from this offering.

We estimate it will take us up to two years to fully invest the net proceeds from this offering. Once all the net proceeds of this offering have been invested, we plan to secure a line of credit to provide additional capital to invest, although we cannot assure you that we will be successful in obtaining such a line of credit on acceptable terms, if at all. In addition, we hope to securitize some or all of the debt securities we acquire, which would provide us with another source of long-term financing. We cannot assure you that we will be able to securitize any of the debt securities we acquire.

While our primary focus will be to generate current income through investments in debt securities and preferred stock that we acquire in connection with buyout and other recapitalization transactions, we may invest up to 30% of our assets in opportunistic investments, which may not involve buyouts or recapitalizations, that Gladstone Management believes will enhance returns to our stockholders. Such investments may include high-yield bonds, distressed debt, publicly traded income depository securities, or IDSs, private equity partnerships, or securities of public companies that are actively traded. We expect that any public company in which we invest will generally not have investment grade debt securities. We may also invest in cash, cash equivalents, U.S. government securities, and other high-quality, investment grade debt investments that mature in one year or less.

About the Gladstone Group

We are externally managed by Gladstone Management, a registered investment adviser. Gladstone Management s senior management team has established the Gladstone Group as a prominent provider of financing solutions to small and mid-sized companies. Mr. Gladstone has more than 25 years of experience in the private investment arena and has overseen investments in more than 500 companies. Gladstone Management is the external manager of three companies that are affiliated with us: Gladstone Capital Corporation, a publicly traded business development company that invests primarily in senior, second lien and senior subordinated term debt of small and mid-sized private companies; Gladstone Commercial Corporation, a publicly traded real estate investment trust that leases commercial and industrial real property, and selectively makes mortgage loans, to small and mid-sized companies; and Gladstone Land Corporation, a privately held company that owns farmland in California. The Gladstone Group traditionally has focused on investment opportunities that Gladstone Management believes are undervalued despite the fact that the companies possess successful business models, established management, strong cash flows, and prospects for value creation. Through its disciplined, value-and-income-oriented strategy, Gladstone Management has sought to identify opportunities for the Gladstone Group in all investment environments. Its investment professionals have sought through this strategy to provide investors with attractive returns while reducing the risk of capital loss throughout economic cycles.

Gladstone Capital is a business development company that completed its initial public offering in August 2001. Gladstone Capital focuses on making debt investments of $5 million to $15 million or more in non-control situations. Most of these investments are senior, second lien and senior subordinated debt instruments from small and mid-sized companies. It currently pays a monthly dividend of $0.12 per share.

Gladstone Commercial is a real estate investment trust that completed its initial public offering in August 2003. Its primary investment objective is to invest in and own net-leased industrial and commercial real property and selectively make long-term industrial and commercial mortgage loans. We believe that this strategy is complementary to our strategy by potentially providing real estate finance opportunities to certain of our portfolio companies. It currently pays a monthly dividend of $0.06 per share.

In contrast, we will seek to capitalize on the significant investment opportunities emerging in the junior subordinated debt, mezzanine debt and preferred stock segments of the market for small and mid-sized companies that involve a buyout of the business or other recapitalization and that, in our judgment, offer the potential for attractive, risk-adjusted returns, including investments with control positions. By providing a one stop shop for these companies, we will be the only company in the Gladstone Group focused primarily on this type of approach to small and mid-sized companies, and we will also be the only company in the Gladstone Group that may take control positions in its portfolio companies.

The following table sets forth certain information about the publicly traded companies in the Gladstone Group.

Fund Name	**Investment Focus**	**Equity Capital Raised (in millions)**	**Current Status**	**Current Monthly Dividend**
Gladstone Capital Corporation (Nasdaq NMS: GLAD)	Senior, second lien and senior subordinated debt of small and mid-sized companies	$ 155	Fully invested and now leveraging	$ 0.12
Gladstone Commercial Corporation (Nasdaq NMS: GOOD)	Real estate investment trust that net leases commercial and industrial real estate, and selectively provides mortgage loans, to small and mid-sized companies	$ 105	Fully invested	$ 0.06

Market Opportunity

Merger and acquisition activity has recovered from the recession of 2001, increasing the demand for acquisition financing. We believe that as the economy has recovered, many small and mid-sized companies have looked to acquisitions as a means of growth. At the same time, owners of small companies (which we consider to be companies with annual revenue between $10 million and $50 million) and mid-sized companies (which we consider to be companies with annual revenue between $50 million and $1 billion) have seen their businesses begin to recover some of the value that had been lost in the recession, thus creating opportunities for these owners to sell their businesses at higher values. In addition, following the recession, entrepreneurs have re-entered the market looking to buy companies. Moreover, private equity and buyout funds have accumulated large amounts of cash and are actively seeking acquisitions, both alone and with other funds. All these factors have created an environment for increased merger and acquisition activity involving small and mid-sized companies.

Number of Merger and Acquisition Transactions (1997 2004)

Source: MergerStats.com.

Dollar Volume of Merger and Acquisitions
(Millions of Dollars)

Source: Standard and Poor s.

We also believe that the increased merger and acquisition activity has increased the prices paid for larger business but that the prices paid for smaller businesses remains relatively low. The chart below shows the multiple of earnings before interest and taxes, or EBIT, and the multiple of earnings before interest, taxes, depreciation and amortization, or EBITDA, paid in the last twelve months for businesses of different sizes. Generally, smaller businesses have been sold, on average, at lower multiples than larger businesses. We intend to finance and buy smaller businesses so as to take advantage of the lower purchase prices for businesses.

Multiples of EBIT and EBITDA Paid for Businesses
in the Twelve Months Ended February 28, 2005
(Millions of Dollars)
Purchase Price

Source: M&A Monitor.

We believe small and mid-sized companies have faced increasing difficulty in raising debt and equity through the capital markets. While some mid-sized companies are able to raise funds by publicly issuing high-yield bonds or obtaining syndicated loans, most small and mid-sized companies have difficulty accessing such capital sources due to their difficulty in having their debt securities rated by a national securities ratings agency, the relatively small size of their offerings and the corresponding lack of liquidity. Consequently, many of these prospective borrowers have been left to deal with traditional commercial lenders, such as banks and insurance companies.

At the same time, we believe that the market for providing flexible acquisition and recapitalization financing to small and mid-sized companies is increasingly underserved by these traditional commercial financing sources. We believe that, due to broad-based consolidation in the financial services industry and other margin and growth-related pressures, banks have de-emphasized their service and product offerings to small and mid-sized companies in recent years in favor of lending to large corporate clients and managing capital market transactions. We also believe that commercial lenders have adopted a more risk-averse approach to lending that has resulted in tightened credit standards than the standards of the late 1990 s. We believe these trends have further reduced the financial options and the amount of capital available to small and mid-sized companies from traditional commercial lenders. We believe that these developments have created an opportunity for non-bank lenders, such as business development companies, to provide small and mid-sized companies with more flexible forms of financing, such as mezzanine and senior secured loans. We believe that the demand for acquisition and recapitalization financing for small and mid-sized companies, coupled with the demands of these companies for flexible sources of capital, create an attractive investment environment for us.

We believe there is a large pool of un-invested private equity capital in buyout and other private equity funds available for the acquisition or other recapitalization of mid-sized companies. These funds generally provide funding for buyouts through investments in subordinated debt, mezzanine debt and preferred stock of target companies. It is common for private equity funds, when proposing to finance a buyout or recapitalization, to seek to package their equity investment together with senior secured or mezzanine debt, which should provide opportunities for us to partner with such funds. Through the extensive industry contacts of Gladstone Management s investment professionals, we believe there are a number of private equity funds that will be interested in having us co-invest with them in the buyout of mid-sized companies.

In addition, we believe there is a very attractive market for financing and buying small companies. In acquisitions of small companies, we intend to provide a one stop shop that can offer senior debt, subordinated debt and mezzanine debt, as well as invest in preferred and common stock, to finance these transactions. By being able to offer all of the financing needed to acquire a small company, we can move quickly to purchase a small company, either supporting existing management or bringing in a new management team, thereby providing a competitive advantage when compared to more traditional financing sources that can provide only part of the necessary financing. When we provide senior debt in connection with these acquisitions, we will generally seek to refinance this senior debt with a local bank or other senior lender shortly after the completion of the transaction, thus leaving us with only investments in the subordinated debt, mezzanine debt, preferred stock and common stock.

Competitive Advantages

We believe that we have the following competitive advantages over other providers of capital to small and mid-sized companies in connection with buyout and recapitalization transactions:

Management expertise

David Gladstone, our chairman and chief executive officer, is also the chairman and chief executive officer of Gladstone Management, Gladstone Capital and Gladstone Commercial and has been involved in all aspects of the Gladstone Companies investment activities, including serving as a member of Gladstone Management s investment committee. Terry Lee Brubaker is our vice chairman and has substantial experience in acquisitions and operations of companies. George Stelljes III is our president and has extensive experience in leveraged finance. Messrs. Gladstone, Brubaker and Stelljes have principal management responsibility for Gladstone Management as its senior executive officers. We expect them to dedicate a significant portion of their time to managing our investment portfolio. Our senior management has extensive experience providing capital to small and mid-sized companies and has worked together for more than 10 years. In addition, we will have access to the resources and expertise of Gladstone Management s approximately 15 additional investment professionals and 10 supporting staff who possess a broad range of transactional, financial, managerial, and investment skills. We expect that Gladstone Management will hire additional investment professionals in the future.

As a result of the extensive investment experience of Gladstone Management, its executive officers and other investment professionals, Gladstone Management and its executive officers have developed a positive reputation in the capital markets. We believe that this reputation and experience, together with the experience of the executive officers of Gladstone Management in investing in debt and equity securities, and managing investments in companies, will afford us a competitive advantage in identifying opportunities to invest in small and mid-sized companies.

Increased access to investment opportunities developed through proprietary research capability and extensive network of contacts

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

Disciplined, value-and-income-oriented investment philosophy with a focus on preservation of capital

In making its investment decisions, Gladstone Management will focus on the risk and reward profile of each prospective portfolio company, seeking to minimize the risk of capital loss without foregoing the potential for capital appreciation. We expect Gladstone Management to use the same value-and-income-oriented investment philosophy that its professionals use in the management of the other Gladstone Companies and to commit resources to management of downside exposure. Gladstone Management s approach will seek to reduce risk in investments by:

- focusing on companies with leading market positions, established management teams and good cash flow;
- investing in businesses with experienced management teams;
- engaging in extensive due diligence from the perspective of a long-term investor;
- investing at low price-to-cash flow multiples; and/or
- adopting flexible transaction structures by drawing on the experience of the investment professionals of Gladstone Management and its affiliates.

Deep industry focus with substantial information flow

We intend to concentrate our investing activities in the strong cash-flow industries in which Gladstone Management s investment professionals have significant investment experience. Since the 1970 s, the investment professionals of Gladstone Management have overseen investments in over 500 companies in over 25 industries. In the process of making and monitoring these investments, Gladstone Management s investment professionals have acquired substantial information concerning these industries, and they have developed long-term relationships with management consultants and management teams in these industries. We expect that the in-depth coverage and experience of Gladstone Management s investment professionals in investing across these many industries throughout various stages of the economic cycle will provide Gladstone Management with access to ongoing market insights, proprietary research and investment opportunities.

Versatile transaction structuring

We believe our management team s broad expertise and its ability to draw upon many years of combined experience will enable Gladstone Management to identify, assess, and structure investments successfully across all levels of a company s capital structure and manage potential risk and return at all stages of the economic cycle. We will