SLM CORP
Form 10-K
February 26, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2009 or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission file numbers 001-13251

SLM Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**52-2013874**
(State of Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
12061 Bluemont Way, Reston, Virginia	**20190**
(Address of Principal Executive Offices)	*(Zip Code)*

(703) 810-3000
(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act
Common Stock, par value $.20 per share.
Name of Exchange on which Listed:
New York Stock Exchange
6.97% Cumulative Redeemable Preferred Stock, Series A, par value $.20 per share
Floating Rate Non-Cumulative Preferred Stock, Series B, par value $.20 per share
Name of Exchange on which Listed:
New York Stock Exchange

Medium Term Notes, Series A, CPI-Linked Notes due 2017
Medium Term Notes, Series A, CPI-Linked Notes due 2018
6% Senior Notes due December 15, 2043
Name of Exchange on which Listed:
New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2009 was $4.8 billion (based on closing sale price of $10.27 per share as reported for the New York Stock Exchange Composite Transactions).

As of January 31, 2010, there were 484,912,370 shares of voting common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the registrant s Annual Meeting of Shareholders scheduled to be held May 13, 2010 are incorporated by reference into Part III of this Report.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This report contains forward-looking statements and information based on management s current expectations as of the date of this document. Statements that are not historical facts, including statements about our beliefs or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, increases in financing costs; limits on liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; and changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws, such as any laws enacted to implement the Obama Administration s current budget proposals as they relate to the Federal Family Education Loan Program (FFELP) and from the implementation of applicable laws and regulations) which, among other things, may change the volume, average term and yields on student loans under the FFELP, may result in loans being originated or refinanced under non-FFELP programs, or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could be affected by: changes in or the termination of various liquidity programs implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; changes in the demand for debt management services; and new laws or changes in existing laws. The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company s expectations.

Definitions for capitalized terms used in this document can be found in the Glossary at the end of this document.

PART I.

Item 1. Business

INTRODUCTION TO SLM CORPORATION

SLM Corporation, more commonly known as Sallie Mae, is the nation s leading saving, planning and paying for education company. SLM Corporation is a holding company that operates through a number of subsidiaries. References in this Annual Report to the Company refer to SLM Corporation and its subsidiaries. The Company was formed in 1972 as the Student Loan Marketing Association, a federally chartered government sponsored enterprise (GSE), with the goal of furthering access to higher education by providing liquidity to the student loan marketplace. On December 29, 2004, we completed the privatization process that began in 1997 and resulted in the wind-down of the GSE.

Our primary business is to originate, service and collect loans made to students and/or their parents to finance the cost of their education. We provide funding, delivery and servicing support for education loans in the United States through our participation in the Federal Family Education Loan Program (FFELP), as a servicer of loans for the Department of Education (ED), and through our non-federally guaranteed Private Education Loan programs.

We have used internal growth and strategic acquisitions to attain our leadership position in the education finance market. The core of our marketing strategy is to generate student loan originations by promoting our brands on campus through the financial aid office and through direct marketing to students and their parents. These sales and marketing efforts are supported by the largest and most diversified servicing capabilities in the industry.

In addition to the net interest income generated by our lending activities, we earn fee income from a number of services including student loan and guarantee servicing, loan default aversion and defaulted loan collections, and for providing processing capabilities and information technology to educational institutions as well as 529 college savings plan program management, transfer and servicing agent services, and administrative services through Upromise Investments, Inc. (UII) and Upromise Investment Advisors, LLC (UIA). We also operate a consumer savings network through Upromise, Inc. (Upromise). References in this Annual Report to Upromise refer to Upromise and its subsidiaries, UII and UIA.

At December 31, 2009, we had approximately eight thousand employees.

Recent Developments and Expected Future Trends

On February 26, 2009, the Obama Administration (the Administration) issued their 2010 fiscal year budget request to Congress which included provisions that called for the elimination of the FFELP program and which would require all new federal loans to be made through the Direct Student Loan Program (DSLP). On September 17, 2009 the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility act (SAFRA), which was consistent with the Administration s 2010 budget request to Congress. If it became law SAFRA would eliminate the FFELP and require that, after July 1, 2010, all new federal loans be made through the DSLP. The Administration s 2011 fiscal year budget continued these requests.

The Senate has not yet introduced legislation on this issue. The Company, together with other members of the student loan community, has been working with members of Congress to enhance SAFRA to allow students and schools to continue to choose their loan originator and to require servicers to share in the risk of loan default. This proposal is referred to as the Community Proposal because it has the widespread support of the student lending community, which includes lenders, Guarantors, financial aid advisors and others. We believe that maintaining competition in the student loan programs and requiring participants to assume a portion of the risk inherent in the program, two of the major tenets of the Community Proposal, would result in a more efficient and cost effective program that better serves students, schools, ED and taxpayers.

The Administration s 2010 fiscal year budget also called for the hiring of additional loan servicers to help ease the transition to a full DSLP and to handle the significant increase in future volume. On June 17, 2009, we announced that we were selected by ED as one of four private sector servicers awarded a servicing contract (the ED Servicing Contract) to service loans we sell to ED plus a portion of loans others sell to ED, existing DSLP loans and loans originated in the future. We began servicing loans under this contract in the third quarter of 2009.

Under both SAFRA and the Community Proposal, the Company would no longer originate, fund or hold new FFELP loans to earn a net interest margin. However, the Company would continue to earn net interest income from our portfolio of existing FFELP loans as the portfolio runs off over a period of time. The Company would become a fee for service provider in the federal loan business. We will continue to originate, fund and hold Private Education Loans.

In addition, the legislation would eliminate the need for the Guarantors and the services we provide to the sector. The Company earns a fee when it processes a loan guarantee for a Guarantor client for the life of the loan for servicing the Guarantor s portfolio of loans. If either SAFRA or the Community Proposal become laws, we would no longer earn the origination fee paid by Guarantors. The portfolio that generates the maintenance fee would go into run-off and we would continue to earn the maintenance fee and perform the associated default aversion and prevention work for the remaining life of the loans. In 2009, we earned guarantor servicing fees of $136 million, which was approximately evenly split between origination and maintenance fees.

Our student loan contingent collection business would also be impacted by the pending legislation. We currently have 12 Guarantors and ED as clients. We earn revenue from Guarantors for collecting defaulted loans as well as for managing their portfolios of defaulted loans. Revenue from Guarantor clients is approximately 66 percent of our contingent collection revenue. We anticipate that revenue from Guarantors will be relatively stable through 2012 and then begin to steadily decline if either SAFRA or the Community Proposal are adopted.

The Company, through its subsidiary Pioneer Credit, has been collecting defaulted student loans on behalf of ED since 1997. The contract is merit based and accounts are awarded on collection performance. Pioneer Credit has consistently ranked number one or two among the ED collectors. In anticipation of a surge in volume as more loans switch to DSLP, ED recently added five new collection companies bringing the total to 22. This led to a decline in account placements with Pioneer Credit, which we believe is temporary. The Company expects that as the DSLP grows the decline in revenue we would experience from our Guarantor clients would be partially offset by increased revenue under the ED contract in future years.

If SAFRA becomes law, a significant restructuring which would result in significant job losses throughout the Company and we will be required to adapt to our new business environment.

The Company is exploring available liquidity to fund FFELP loans for our student customers if legislation is not passed and The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) is not extended in time for the academic year (AY) 2010 2011. We believe that adequate liquidity will be available to fund the anticipated number of loans.

Student Lending Market

Students and their families use multiple sources of funding to pay for their college education, including savings, current income, grants, scholarships, and federally guaranteed and private education loans. Over the last five years, these sources of funding for higher education have been relatively stable with a general trend towards an increased use of student loans. In the last academic year, 39 percent of students used federally guaranteed student loans or private education loans to finance their education. Due to an increase in federal loan limits that took effect in 2007 and 2008, the Company has seen a substantial increase in borrowing from federal loan programs in recent years.

Federally Guaranteed Student Lending Programs

There are currently two loan delivery programs that provide federal government guaranteed student loans: the FFELP and the DSLP. FFELP loans are provided by the private sector. DSLP loans are provided to borrowers directly by ED on terms similar to student loans provided under the FFELP. We participate in and are the largest lender under the FFELP. The Company is participating in ED s Participation and Put program, which were established under the authority provided in ECASLA. This program is scheduled to terminate on June 30, 2010. Under this program, ED provides funding to lenders for up to one year at a cost of commercial paper (CP) plus 50 basis points. The lender has the option to sell the loans to ED within 90 days of the end of the AY for a fee of $75 per loan plus the principal amount of and accrued interest on the loan plus the one percent origination fee for which we are reimbursed. We are also a contractor to service loans sold to ED and DSLP loans.

For the federal fiscal year (FFY) ended September 30, 2009 (FFY 2009), ED estimated that the market share of FFELP loans was 69 percent, down from 76 percent in FFY 2008. (See LENDING BUSINESS SEGMENT Competition.) Total FFELP and DSLP volume for FFY 2009 grew by 28 percent, with the FFELP portion growing 17 percent and the DSLP portion growing 63 percent.

The Higher Education Act (the HEA) regulates every aspect of the federally guaranteed student loan program, including communications with borrowers, loan originations and default aversion requirements. Failure to service a student loan properly could jeopardize the guarantee on federal student loans. This guarantee generally covers 98 and 97 percent of the student loan s principal and accrued interest for loans disbursed before and after July 1, 2006, respectively. In the case of death, disability or bankruptcy of the borrower, the guarantee covers 100 percent of the loan s principal and accrued interest. The guarantee on our existing loan portfolio would not be impacted by pending legislation.

FFELP loans are guaranteed by state agencies or non-profit companies designated as Guarantors, with ED providing reinsurance to the Guarantor. Guarantors are responsible for performing certain functions necessary to ensure the program s soundness and accountability. These functions include reviewing loan application data to detect and prevent fraud and abuse and to assist lenders in preventing default by providing counseling to borrowers. Generally, the Guarantor is responsible for ensuring that loans are serviced in compliance with the requirements of the HEA. When a borrower defaults on a FFELP loan, we submit a claim to the Guarantor who provides reimbursements of principal and accrued interest subject to the Risk Sharing (See APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM, to this document for a description of the role of Guarantors.)

Private Education Loan Products

In addition to federal loan programs, which have statutory limits on annual and total borrowing, we offer Private Education Loan programs to bridge the gap between the cost of education and a student s resources. Historically, the majority of our Private Education Loans were made in conjunction with a FFELP Stafford Loan and are marketed to schools through the same marketing channels and by the same sales force as FFELP loans. However, we also originate Private Education Loans at DSLP schools. We expect no interruption in our presence in the school channel if SAFRA were to pass. As a result of the credit market dislocation discussed above, a large number of lenders have exited the Private Education Loan business and only a few of the country s largest banks continue to offer the product.

Drivers of Growth in the Student Loan Industry

Growth in our Managed student loan portfolio and our servicing and collection businesses is driven by the growth in the overall market for student loans, as well as by our own market share gains. Rising enrollment and college costs and increases in borrowing limits have resulted in the size of the federally insured student loan market more than tripling over the last 10 years. Federally insured student loan originations grew from $30 billion in FFY 1999 to $96 billion in FFY 2009.

According to the College Board, tuition and fees at four-year public institutions and four-year private institutions have increased 88 percent and 66 percent, respectively, in constant, inflation-adjusted dollars, since AY 1999-2000. Under the FFELP, there are limits to the amount students can borrow each academic year. The first loan limit increases since 1992 were implemented July 1, 2007. In response to the credit crisis, Congress significantly increased loan limits again in 2008. As a result, students rely more on federal loans to fund their tuition needs. Both federal and private loans as a percentage of total student aid were 49 percent of total student aid in AY 1998-1999 and 53 percent in AY 2008-2009. Private Education Loans accounted for 12 percent of total student loans both federally guaranteed and Private Education Loans in AY 2008-2009, compared to 8 percent in AY 1998-1999.

The National Center for Education Statistics predicts that the college-age population will increase approximately 10 percent from 2009 to 2018. Demand for education credit is expected to increase due to this population demographic, first-time college enrollments of older students and continuing interest in adult education.

The following charts show the historical and projected enrollment and average tuition and fee growth for four-year public and private colleges and universities.

Historical and Projected Enrollment
(in millions)

Source: National Center for Education Statistics

Note: Total enrollment in all degree-granting institutions; middle alternative projections for 2006 onward.

Cost of Attendance[(1)]
Cumulative % Increase from AY 1998-1999

Source: The College Board

(1) Cost of attendance is in current dollars and includes tuition, fees and on-campus room and board.

BUSINESS SEGMENTS

We provide credit products and related services to the higher education and consumer credit communities and others through two primary business segments: our Lending business segment and our Asset Performance Group (APG) business segment. In addition, within our Corporate and Other business segment, we provide a number of products and services that are managed within smaller operating segments, the most prominent being our Guarantor Servicing and Loan Servicing businesses. As discussed above, some of our businesses are expected to go into run-off as a result of pending legislation. Each of these segments is summarized below. The accounting treatment for the segments is explained in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

LENDING BUSINESS SEGMENT

In the Lending business segment, we originate and acquire both federally guaranteed student loans, and Private Education Loans, which are not federally guaranteed. We manage the largest portfolio of FFELP and Private Education Loans in the student loan industry, and have 10 million student and parent customers through our ownership and management of $176.4 billion in Managed student loans as of December 31, 2009, of which $141.4 billion or 80 percent are federally insured. We serve over 6,000 clients, including educational and financial institutions and non-profit state agencies. We are the largest servicer and collector of student loans, servicing $194.2 billion in assets, including $26.3 billion for third parties, of which $19.2 billion is serviced for ED as of December 31, 2009.

Sallie Mae s Lending Business

Our primary marketing point-of-contact is the school s financial aid office. We deliver flexible and cost-effective products to the school and its students. The focus of our sales force is to market Sallie Mae s suite of education finance products to colleges. These include FFELP and Private Education Loans and through our Web-based loan origination and servicing platform OpenNet®. As a result of the changes taking place in the student loan marketplace, we are broadening our marketing activities to include Direct to Consumer initiatives and referral lending relationships. We also intend to drive loan volume through our Planning, Paying and Saving for college activities.

In 2009, we originated $24.9 billion in student loans. FFELP originations for the year ended December 31, 2009 totaled $21.7 billion, an increase of 21 percent from the year ended December 31, 2008. The increase in FFELP loan origination growth was due to higher loan limits and an increase in market share. Given the legislative uncertainty around FFELP and the ongoing transition of certain schools to Direct Lending, FFELP originations could be substantially lower in the AY 2010 2011. Private Education Loan originations totaled $3.2 billion, a decrease of 50 percent from the prior year. The decline in Private Education Loan originations was due to a tightening of our underwriting requirements, an increase in federal student loan limits and the Company s withdrawal from certain markets.

Private Education Loans

We bear the full credit risk for Private Education Loans, which are underwritten and priced according to credit risk based upon customized credit scoring criteria. Due to their higher risk profile, generally Private Education Loans have higher interest rates than FFELP loans. Despite a decline in the growth rate of Private Education Loan originations, the portfolio grew 5 percent from the prior year. All new Private Education Loans are being funded at Sallie Mae Bank through our deposit taking activities.

In 2008 and 2009, the credit environment created significant challenges for funding Private Education Loans. At the same time, we became more restrictive in our underwriting criteria. In addition, as discussed above, federal lending limits increased significantly in 2007 and 2008. As a result of these factors, originations declined in 2008 and 2009. We expect originations to grow once again in 2010 and subsequent years as the credit markets continue to recover and the impact of the 2007 and 2008 federal loan limit increases is offset by tuition increases and market share gains.

Over the course of 2009, we made improvements in the structure, pricing, underwriting, servicing, collecting and funding of Private Education Loans. These changes were made to increase the profitability and decrease the risk of the product. For example, the average FICO score for loans disbursed in 2009 was up 19 points to 745 and the percentage of co-signed loans increased to 84 percent from 66 percent in the prior year.

These improvements in portfolio quality are being driven primarily by our more selective underwriting criteria. We have instituted higher FICO cut-offs and require cosigners for borrowers with higher credit scores than in the past. Our experience shows that adding a cosigner to a loan reduces the default rate by more than 50 percent. We are capturing more data on our borrowers and cosigners and using this data in the credit decision and pricing process. In 2009, we began using a new Custom Underwriting Scorecard, that we believe will further improve our underwriting. We have also introduced judgmental lending.

In 2009, we introduced the Smart Option Student Loan®, which is offered to undergraduate and graduate students through the financial aid offices of colleges and universities to supplement traditional federal loans. The Smart Option Student Loan® significantly reduces the customer s total cost and repayment term by requiring interest payments while the student is in school.

Competition

Historically, we have faced competition for both federally guaranteed and non-guaranteed student loans from a variety of financial institutions, including banks, thrifts and state-supported secondary markets. However, as a result of the CCRAA which was passed in 2007, the legislation currently pending and the dislocation in the capital markets, the student loan industry is undergoing a significant transition. A number of student lenders have ceased operations altogether or curtailed activity.

ASSET PERFORMANCE GROUP BUSINESS SEGMENT

In our APG business segment, we provide student loan default aversion services, defaulted student loan portfolio management services and contingency collections services for student loans and other asset classes. In 2008, we decided to wind down our accounts receivable management and collections services on consumer and mortgage receivable portfolios. We made this decision because we did not realize the expected synergies between this business and our traditional contingent student loan collection business. During 2009 we sold GRP, our mortgage purchased paper company, and wound down our unsecured receivables portfolio to $285 million.

In 2009, our APG business segment had revenues totaling $346 million and a net loss of $154 million due to impairments in our collections servicing portfolios. Our largest customer, USA Funds, accounted for 39 percent, excluding impairments, of our revenue in this segment in 2009.

Please read the section Recent Developments and Expected Future Trends to see how pending legislation could impact this business segment.

Products and Services

Student Loan Default Aversion Services

We provide default aversion services for five Guarantors, including the nation s largest, USA Funds. These services are designed to prevent a default once a borrower s loan has been placed in delinquency status.

Defaulted Student Loan Portfolio Management Services

Our APG business segment manages the defaulted student loan portfolios for six Guarantors under long-term contracts. APG s largest customer, USA Funds, represents approximately 17 percent of defaulted student loan portfolios we manage. Our portfolio management services include selecting collection agencies and determining account placements to those agencies, processing loan consolidations and loan rehabilitations, and managing federal and state offset programs.

Contingency Collection Services

Our APG business segment is also engaged in the collection of defaulted student loans on behalf of various clients, including schools, Guarantors, ED and other federal and state agencies. We earn fees that are contingent on the amounts collected. We provide collection services for approximately 16 percent of the total market for federal student loan collections. We have relationships with approximately 900 colleges and universities to provide collection services for delinquent student loans and other receivables from various campus-based programs. We also collect other debt for federal and state agencies, and retail clients.

Competition

The private sector collections industry is highly fragmented with a few large companies and a large number of small scale companies. The APG businesses that provide third-party collections services for ED, FFELP Guarantors and other federal holders of defaulted debt are highly competitive. In addition to competing with other collection enterprises, we also compete with credit grantors who each have unique mixes of internal collections, outsourced collections and debt sales. The scale, diversification and performance of our APG business segment have been, and the Company expects them to remain, a competitive advantage for the Company.

CORPORATE AND OTHER BUSINESS SEGMENT

The Company s Corporate and Other business segment includes the aggregate activity of its smaller operating segments, primarily its Guarantor Servicing, Loan Servicing, and Upromise operating segments. Corporate and Other also includes several smaller products and services, including comprehensive financing and loan delivery solutions to college financial aid offices and students to streamline the financial aid process.

Please read the section above, INTRODUCTION TO SLM CORPORATION Recent Developments and Expected Future Trends to see how we expect pending legislation to impact this business segment.

Guarantor Servicing

We earn fees for providing a full complement of administrative services to FFELP Guarantors. FFELP student loans are guaranteed by these agencies, with ED providing reinsurance to the Guarantor. The Guarantors are non-profit institutions or state agencies that, in addition to providing the primary guarantee on FFELP loans, are responsible for other activities, including:

- guarantee issuance the initial approval of loan terms and guarantee eligibility;
- account maintenance the maintaining, updating and reporting of records of guaranteed loans;
- default aversion services these services are designed to prevent a default once a borrower s loan has been placed in delinquency status (we perform these activities within our APG business segment);
- guarantee fulfillment the review and processing of guarantee claims;
- post-claim assistance assisting borrowers in determining the best way to resolve a defaulted loan; and
- systems development and maintenance the development of automated systems to maintain compliance and accountability with ED regulations.

Currently, we provide a variety of these services to 15 Guarantors and, in AY 2008-2009, we processed $24.0 billion in new FFELP loan guarantees, of which $19.3 billion was for USA Funds, the nation s largest Guarantor. We processed guarantees for approximately 35 percent of the FFELP loan market in AY 2008-2009.

Guarantor servicing fee revenue, which includes guarantee issuance and account maintenance fees, was $136 million for the year ended December 31, 2009, 86 percent of which we earned from services performed on behalf of USA Funds. Under some of our guarantee services agreements, including our agreement with

USA Funds, we receive certain scheduled fees for the services that we provide under such agreements. The payment for these services includes a contractually agreed-upon percentage of the account maintenance fees that the Guarantors receive from ED.

The Company s guarantee services agreement with USA Funds has a five-year term that will be automatically extended on October 1 of each year unless prior notice is given by either party.

Our primary non-profit competitors in Guarantor Servicing are state and non-profit guarantee agencies that provide third-party outsourcing to other Guarantors.

(See APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM Guarantor Funding for details of the fees paid to Guarantors.)

Upromise

Upromise provides a number of programs that encourage consumers to save for college. Upromise has established a consumer savings network which is designed to promote college savings by consumers who are members of this program by allowing them to earn rewards from the purchase of goods and services from the companies that participate in the program (Participating Companies). Participating Companies generally pay Upromise transaction fees based on member purchase volume, either online or in stores depending on the contractual arrangement with the Participating Company. Typically, a percentage of the purchase price of the consumer members eligible purchases with Participating Companies is set aside in an account maintained by Upromise on behalf of its members.

Upromise, through its wholly-owned subsidiaries, UII, a registered broker-dealer, and UIA, a registered investment advisor, provides program management, transfer and servicing agent services, and administration services for various 529 college-savings plans. UII and UIA manage approximately $23 billion in 529 college-savings plans.

REGULATION

Like other participants in the FFELP, the Company is subject to the HEA and, from time to time, to review of its student loan operations by ED and guarantee agencies. As a servicer of federal student loans, the Company is subject to certain ED regulations regarding financial responsibility and administrative capability that govern all third-party servicers of insured student loans. In connection with our Guarantor Servicing operations, the Company must comply with, on behalf of its Guarantor Servicing customers, certain ED regulations that govern Guarantor activities as well as agreements for reimbursement between the Secretary of Education and the Company s Guarantor Servicing customers. As a third-party service provider to financial institutions, the Company is also subject to examination by the Federal Financial Institutions Examination Council (FFIEC).

The Company s originating or servicing of federal and private student loans also subjects it to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal laws and regulations that are applicable to our student loan business include:

- the Truth-In-Lending Act;
- the Fair Credit Reporting Act;
- the Equal Credit Opportunity Act;
- the Gramm Leach-Bliley Act; and

the U.S. Bankruptcy Code.

APG s debt collection and receivables management activities are subject to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal laws and regulations that are applicable to our APG business segment include:

the Fair Debt Collection Practices Act;

the Fair Credit Reporting Act;

the Gramm-Leach-Bliley Act; and

the U.S. Bankruptcy Code.

Our APG business segment is subject to state laws and regulations similar to the federal laws and regulations listed above. Finally, certain APG subsidiaries are subject to regulation under the HEA and under the various laws and regulations that govern government contractors.

Sallie Mae Bank is subject to Utah banking regulations as well as regulations issued by the Federal Deposit Insurance Corporation, and undergoes periodic regulatory examinations by the FDIC and the Utah Department of Financial Institutions.

UII and UIA, which administer 529 college-savings plans, are subject to regulation by the Municipal Securities Rulemaking Board, the Financial Industry Regulatory Authority (formerly the National Association of Securities Dealers, Inc.) and the Securities and Exchange Commission (SEC) through the Investment Advisers Act of 1940.

AVAILABLE INFORMATION

The SEC maintains an Internet site (http://www. sec.gov) that contains periodic and other reports such as annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K, respectively, as well as proxy and information statements regarding SLM Corporation and other companies that file electronically with the SEC. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and other periodic reports are available on our website as soon as reasonably practicable after we electronically file such reports with the SEC. Investors and other interested parties can also access these reports at www.salliemae.com/about/investors.

Our Code of Business Conduct, which applies to Board members and all employees, including our Chief Executive Officer and Chief Financial Officer, is also available, free of charge, on our website at www.salliemae.com/about/business_code. htm. We intend to disclose any amendments to or waivers from our Code of Business Conduct (to the extent applicable to our Chief Executive Officer or Chief Financial Officer) by posting such information on our website.

In 2009, the Company submitted the annual certification of its Chief Executive Officer regarding the Company s compliance with the NYSE s corporate governance listing standards, pursuant to Section 303A.12(a) of the NYSE Listed Company Manual.

In addition, we filed as exhibits to the Company s annual reports on Form 10-K for the years ended December 31, 2007 and 2008 and to this Annual Report on Form 10-K, the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

Item 1A. Risk Factors

Our business activities involve a variety of risks. Below we describe the significant risk factors affecting our business. The risks described below are not the only risks facing us other risks also could impact our business.

Funding and Liquidity.

Our business is affected by funding constraints in the credit market and dependence on various government funding sources, and the interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. These factors may increase the price of or decrease our ability to obtain liquidity as well expose us to basis risk and repricing.

The capital markets are experiencing a prolonged period of volatility. This volatility has had varying degrees of impact on most financial organizations. These conditions have impacted the Company s access to and cost of capital necessary to manage our business. Additional factors that could make financing difficult, more expensive or unavailable on any terms include, but are not limited to, financial results and losses of the Company, changes within our organization, events that have an adverse impact on our reputation, changes in the activities of our business partners, events that have an adverse impact on the financial services industry, counterparty availability, changes affecting our assets, corporate and regulatory actions, absolute and comparative interest rate changes, ratings agencies actions, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions.

Our business is also affected by various government funding sources and funding constraints in the capital markets.

Funding for new FFELP loan originations is currently dependent to a large degree on financial programs established by the federal government. These programs are described in the LIQUIDITY AND CAPITAL RESOURCES section of this Form 10-K. These federal programs are not permanent and may not be extended past their expiration dates. There is no assurance that the capital markets will be able to totally support FFELP loan originations beyond the time these programs are presently scheduled to end. Upon termination of the government programs mentioned, if cost effective funding sources were not available, we could be compelled to reduce or suspend the origination of new FFELP loans.

FFELP loans originated under the government programs mentioned above must be re-financed or sold to the government by a date determined under the terms of the programs. It is our intention to sell these loans to the government under the terms of the programs.

During 2009, the Company funded private, non-federally guaranteed loan originations primarily through term brokered deposits raised by Sallie Mae Bank. Assets funded in this manner result in re-financing risk because the average term of the deposits is shorter than the expected term of some of the same assets. There is no assurance that this or other sources of funding, such as the term asset-backed securities market, will be available at a level and a cost that makes new Private Education Loan originations possible or profitable, nor is there any assurance that the loans can be re-financed at profitable margins.

At some time, the Company may decide that it is prudent or necessary to raise additional equity capital through the sale of common stock, preferred stock, or securities that convert into common stock. There are no restrictions on entering into the sale of any equity securities in either public or private transactions, except that any private transaction involving more than 20 percent of shares outstanding requires shareholder approval and any holder owning more than 10 percent of our fully diluted shares requires approval of the FDIC relating to a change of control of our

Bank. Under current market conditions, the terms of an equity transaction may subject existing security holders to potential subordination or dilution and may involve a change in governance.

The interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. This mismatch exposes us to risk in the form of basis risk and repricing risk. While most of such basis risks are hedged using interest rate swap contracts, such hedges are not always perfect matches and, therefore, may result in losses. While the asset and hedge indices are short-term with rate movements that are typically highly correlated, there can be no assurance that the historically high correlation will not be disrupted by capital market dislocations or other factors not within our control. For instance, as a result of the turmoil in the capital markets, the historically tight spread between CP and LIBOR began to widen dramatically in the fourth quarter of 2008. It subsequently reverted to more normal levels beginning in the third quarter of 2009 and has been stable since then. In such circumstances, our earnings could be adversely affected, possibly to a material extent.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity, increase our borrowing costs, limit our access to the markets or trigger obligations under certain provisions in collateralized arrangements. Under these provisions, counterparties may require us to segregate collateral or terminate certain contracts.

Economic Conditions.

We may be adversely affected by deterioration in economic conditions.

We may continue to be adversely affected by economic conditions. A continuation of the current downturn in the economy, or a further deterioration, could result in lessened demand for consumer credit and credit quality could continue to be impacted. Adverse economic conditions may result in declines in collateral values. Higher credit-related losses and weaker credit quality could impact our financial position and limit funding options, including capital markets activity, which could adversely impact the Company s liquidity position.

Operations.

A failure of our operational systems or infrastructure, or those of our third-party vendors, could disrupt our business, result in disclosure of confidential customer information, damage our reputation and cause losses.

A failure of our operational systems or infrastructure, or those of our third-party vendors, could disrupt our business. Our business is dependent on our ability to process and monitor, on a daily basis, a large number of transactions. These transactions must be processed in compliance with legal and regulatory standards and our product specifications, which we change to reflect our business needs. As processing demands change and grow, developing and maintaining our operational systems and infrastructure becomes increasingly challenging.

Our loan originations and servicing, financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are beyond our control, adversely affecting our ability to process these transactions. Any such failure could adversely affect our ability to service our clients, result in financial loss or liability to our clients, disrupt our business, result in regulatory action or cause reputational damage. Despite the plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses. This may include a disruption involving electrical, communications, internet, transportation or other services used by us or third parties with which we conduct business. Notwithstanding our efforts to maintain business continuity, a disruptive event impacting our processing locations could negatively affect our business.

Our operations rely on the secure processing, storage and transmission of personal, confidential and other information in our computer systems and networks. Although we take protective measures, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses, malicious attacks and other events that could have a security impact beyond our control. If one or more of such events occur, personal, confidential and other information processed and stored in, and transmitted through, our computer systems and networks, could be jeopardized or otherwise interruptions or malfunctions in our operations could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

We routinely transmit and receive personal, confidential and proprietary information, some through third parties. We have put in place secure transmission capability, and work to ensure third parties follow similar procedures. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, regulatory action and reputational harm.

Political.

Changes in laws and regulations that affect the FFELP and consumer lending could affect the profitability of our business.

Changes in laws and regulations that affect our businesses, including our FFELP and private credit education lending and debt collection businesses, could affect the profitability and viability of our Company. During September 2009, the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility Act (SAFRA), which would eliminate the FFELP and require that, after July 1, 2010, all new federal student loans be made through the Direct Student Loan Program. There are several proposals in the Senate, including SAFRA and related proposals, and an alternative proposal submitted by Senator Casey to the Congressional Budget Office for scoring, which maintains a structure similar to the Community Proposal but reduces the purchase fee from $75 to $55. The Administration s budget for the 2011 fiscal year, submitted to Congress on February 1, 2010, includes proposals consistent with SAFRA that could negatively impact the FFELP. The Obama Administration s (the Administration) budget request and the current economic environment may make legislative changes more likely, making this risk to our business greater. The Administration has also proposed a financial responsibility tax for financial institutions which may also impact the Company.

Competition.

We operate in a competitive environment, and our product offerings are primarily concentrated in loan and savings products for higher education.

The education loan business is highly competitive. We compete in the FFELP business and the private credit lending business with banks and other consumer lending institutions, many with strong consumer brand name recognition. We compete based on our products, origination capability and customer service. To the extent our competitors compete aggressively or more effectively, including with private credit loan products that are more accepted than ours or lower private credit pricing, we could lose market share to them or subject our existing loans to refinancing risk.

We are a leading provider of saving- and paying-for-college products and programs. This concentration gives us a competitive advantage in the market place. This concentration also creates risks in our business, particularly in light of our concentration as a FFELP and private credit lender and servicer for the FFELP and DSLP. The market for federally-guaranteed student loans is shared among the Company and other private sector lenders who participate in the FFELP, and the federal government through the DSLP. The market for private credit loans is shared among many banks and financial institutions. If population demographics result in a decrease in college-age individuals, if demand for higher education decreases, if the cost of attendance of higher education decreases, if public support for higher education costs increases, or if the demand for higher education loans decreases or increases from one product to another, our FFELP and private credit lending business could be negatively affected.

In addition, if we introduce new education or other loan products, there is a risk that those new products will not be accepted in the marketplace. We might not have other profitable product offerings that offset loss of business in the education credit market.

Credit and Counterparty.

Unexpected and sharp changes in the overall economic environment may negatively impact the performance of our credit portfolio.

Unexpected changes in the overall economic environment may result in the credit performance of our loan portfolio being materially different from what we expect. Our earnings are critically dependent on the evolving creditworthiness of our student loan customers. We maintain a reserve for credit losses based on expected future charge-offs which consider many factors, including levels of past due loans and forbearances and expected economic conditions. However, management s determination of the appropriate reserve level may under- or over-estimate future losses. If the credit quality of our customer base materially decreases, if a market risk changes significantly, or if our reserves for credit losses are not adequate, our business, financial condition and results of operations could suffer.

In addition to the credit risk associated with our education loan customers, we are also subject to the creditworthiness of other third parties, including counterparties to our derivative transactions. For example, we have exposure to the financial condition of various lending, investment and derivative counterparties. If any of our counterparties is unable to perform its obligations, we would, depending on the type of counterparty arrangement, experience a loss of liquidity or an economic loss. In addition, we might not be able to cost effectively replace the derivative position depending on the type of derivative and the current economic environment, and thus be exposed to a greater level of interest rate and/or foreign currency exchange rate risk which could lead to additional losses. The Company s counterparty exposure is more fully discussed herein in LIQUIDITY AND CAPITAL RESOURCES Counterparty Exposure.

Regulatory and Compliance.

Our businesses are regulated by various state and federal laws and regulations, and our failure to comply with these laws and regulations may result in significant costs, sanctions and/or litigation.

Our businesses are subject to numerous state and federal laws and regulations and our failure to comply with these laws and regulations may result in significant costs, including litigation costs, and/or business sanctions.

Our private credit lending and debt collection business are subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection regulation. Some state attorneys general have been active in this area of consumer protection. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators as well as frequent litigation from private plaintiffs.

Sallie Mae Bank is subject to state and FDIC regulation, oversight and regular examination. At the time of this filing, Sallie Mae Bank was the subject of a cease and desist order for weaknesses in its compliance function. While the issues addressed in the order have largely been remediated, the order has not yet been lifted. Our failure to comply with various laws and regulations or with the terms of the cease and desist order or to have issues raised during an examination could result in litigation expenses, fines, business sanctions, limitations on our ability to fund our Private Education Loans, which are currently funded by term deposits issued by Sallie Mae Bank, or restrictions on the operations of Sallie Mae Bank.

Loans originated and serviced under the FFELP are subject to legislative and regulatory changes. A summary of the program, which indicates its complexity and frequent changes, may be found in APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM of this Form 10-K. We continually update our FFELP loan originations and servicing policies and procedures and our systems technologies, provide training to our staff and maintain quality control over processes through compliance reviews and internal and external audits. We are at risk, however, for misinterpretation of ED guidance and incorrect application of ED regulations and policies, which could result in fines, the loss of the federal guarantee on FFELP loans, or limits on our participation in the FFELP.

Reliance on Estimates.

Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported assets, liabilities, income and expenses.

Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of our consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. A description of our critical accounting estimates and assumptions may be found in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CRITICAL ACCOUNTING POLICIES AND ESTIMATES in this Form 10-K.

If we make incorrect assumptions or estimates, we may under- or overstate reported financial results, which could result in actual results being significantly different than current estimates which could adversely affect our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table lists the principal facilities owned by the Company as of December 31, 2009:

Location	Business Segment / Function	Approximate Square Feet
Fishers, IN	Lending/Loan Servicing and Data Center	450,000
Newark, DE	Lending/Credit and Collections Center	160,000
Wilkes-Barre, PA	Lending/Loan Servicing Center 0.5% (1)	

(413

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(510

)

Credit to base management fee from Adviser

(694

)

(1,046

)

Net base management fee

$

(252

)

$

(548

)

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(1) Our Adviser voluntarily waived the annual 2.0% base management fee to 0.5% for senior syndicated loan participations to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations.

Administration fees were $195 for the three months ended December 31, 2008, as compared to $211 for the comparable prior year period. This fee consists of our allocable portion of our Administrator s rent and other overhead expenses, and our allocable portion of the salaries and benefits of our chief financial officer, chief compliance officer, treasurer, and their respective staffs. Our allocable portion of expenses is derived by multiplying the percentage of our average assets (the assets at the beginning and ending of each quarter) in comparison to the average assets of all companies managed by our Adviser that are under similar administration agreements with our Administrator. The slight decrease was attributable to a decrease in our total assets in relation to the other funds serviced by our Administrator during the prior quarter.

Interest expense was $1,823 for the three months ended December 31, 2008, as compared to $2,381 for the comparable prior year period. The decline was a direct result of decreased borrowings under our credit facility during the period from the prior year period. While there was an increase in the interest rate margin charged on the outstanding borrowings upon renewing the facility on October 16, 2008, the LIBOR base rate decrease during the period offset this interest rate margin increase.

Amortization of deferred finance costs were $46 for the three months ended December 31, 2008, as compared to $169 for the comparable prior year period. The decrease is attributable to realizing the full amortization of costs incurred in connection with the credit facility agreement. There was no fee associated with the October 16, 2008 renewal of the credit facility. At December 31, 2008, all deferred finance costs had been fully amortized.

Professional fees were $69 for the three months ended December 31, 2008, as compared to $90 for the comparable prior year period. Professional fees primarily consist of legal fees and audit and accounting fees. The decrease is primarily due to decreased direct consulting and legal fees incurred on potential investments.

Stockholder related costs were $112 for the three months ended December 31, 2008, as compared to $25 for the comparable prior year period. Stockholder related costs consist of the amortization of annual Nasdaq listing fees, transfer agent fees, annual report printing and distribution and other annual meeting costs, costs associated with SEC filings and press release costs. The increase was primarily attributable to the increase annual report printing fees.

Insurance expense was $57 for the three months ended December 31, 2008, as compared to $47 for the comparable prior year period. Insurance expense consists of the amortization of the directors and officers insurance policy and professional liability policy premiums. The increase is due to an escalation in the premiums for directors and officers insurance for the current policy period.

Directors fees were $50 for the three months ended December 31, 2008, as compared to $55 for the comparable prior year period. Directors fees consist of the amortization of the directors annual stipend and individual meeting fees. The slight decrease is due to the timing of committee meetings, resulting in fewer meetings being held in the current quarter.

Taxes and licenses expense was $16 for the three months ended December 31, 2008, as compared to $42 for the comparable prior year period and these expenses consist primarily of franchise taxes due to the state of Delaware and other fees surrounding state and regulatory licensing, registration and other corporate filing fees. The decrease is mainly attributable to a reduction in the quarterly accrual for estimated taxes and license fees.

General and administrative expenses remained flat at $41 for three months ended December 31, 2008, as compared to $39 for the comparable prior year period. General and administrative expenses consist primarily of direct expenses such as travel related specifically to our portfolio companies, loan evaluation services for our portfolio companies and backup servicer expenses.

Realized and Unrealized (Loss) Gain on Investments

For the three months ended December 31, 2008, no investments were sold or written off. We did, however, record net unrealized depreciation of investments in the aggregate amount of $7,527. For the three months ending December 31, 2007, we recognized a net loss of $146 resulting from the partial sale of two of our syndicated loans, and we recorded net unrealized appreciation of investments in the aggregate amount of $1,504.

At December 31, 2008, the fair value of our investment portfolio was less than the cost basis of our portfolio by approximately $28.9 million, representing net unrealized depreciation of $7.5 million for the quarter. At December 31, 2007, the fair value of our investment portfolio was less than the cost basis of our portfolio by approximately $15.2 million, representing net unrealized appreciation of $1.5 million for the quarter ended December 31, 2008. The majority of our unrealized depreciation for the quarter occurred in our senior syndicated loans, which accounted for approximately $7.0 million of the losses, specifically Interstate Fibernet, PTS Acquisition, HMT, and Network Solutions, while slightly offset by unrealized appreciation in LVI and B-Dry. Affiliate investments also experienced decreases in value of $2.3 million, specifically Danco Acquisition and Noble Logistics. Our Control investments appreciated in value by an aggregate amount of approximately $1.7 million, driven by Chase and Galaxy.

We believe that our investment portfolio was valued at a depreciated value due primarily to the general instability of the loan markets. Additionally, our equity investments in two Control investments with an aggregate cost of $3.6 million have been written down to $0 fair value. Although our investment portfolio has depreciated, our entire portfolio was fair valued at 92% of cost as of December 31, 2008. The unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution.

Derivatives

For both the three months ended December 31, 2008 and 2007, we recorded unrealized appreciation of our interest rate cap agreements purchased in October 2007 and February 2008 at nominal rates.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the three months ended December 31, 2008, we recorded a net decrease in net assets resulting from operations of $3,940 as a result of the factors discussed above. Our net (decrease) increase in net assets resulting from operations per basic and diluted weighted average common share for the quarters ended December 31, 2008 and 2007 were $(0.18) and $0.31, respectively. For the three months ended December 31, 2007, we recorded a net increase in net assets resulting from operations of $5,109. We will continue to incur base management fees which are likely to increase to the extent our investment portfolio grows, and we may begin to incur incentive fees. Our administrative fee payable to our Administrator is also likely to grow during future periods to the extent our average total assets grow in comparison to prior periods and as the expenses incurred by our Administrator to support our operations increase.

Nine months ended December 31, 2008 compared to the nine months ended December 31, 2007

Investment Income

Investment income for the nine months ended December 31, 2008 was $19,856, as compared to investment income of $21,000 for the nine months ended December 31, 2007.

Interest income from our investments in debt securities of private companies was $19,107 for the nine months ended December 31, 2008, as compared to $20,765 for the comparable prior year period. The level of interest income from investments is directly related to the balance, at cost, of the interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average yield varies from period to period based on the current stated interest rate on interest-bearing investments and the amounts of loans for which interest is not accruing. Interest income from our investments decreased $1.7 million, or 8.0%, during the nine months ended December 31, 2008 compared to the prior year period, due primarily to decreases in the average LIBOR during the respective periods, which was 2.46% for the nine months ended December 31, 2008 and 5.23% for the prior year period.

Interest income from Non-Control/Non-Affiliate investments was $6,797 for the nine months ended December 31, 2008, as compared to $11,220 for the comparable prior year period. This decrease was mainly the result of an overall decrease in the balance of Non-Control/Non-Affiliate investments held during the nine months ended December 31, 2008 as compared to the prior year period, commensurate with our strategy to sell some of our syndicated loans. Drops in LIBOR, due to the instability and tightening of the credit markets, during the current nine month period ended December 31, 2008 accentuated this decrease.

Interest income from Control investments was $8,372 for the nine months ended December 31, 2008, as compared to $8,043 for the comparable prior year period. The addition of two Control investments during the nine months ended December 31, 2008 drove this increase and helped to offset the impact of lower interest rates and the reclassification of Quench as an Affiliate investment.

Interest income from Affiliate investments was $3,938 for the nine months ended December 31, 2008, as compared to $1,502 for the comparable prior year period. This increase is attributable to interest earned on three additional Affiliate investments held during the nine months ended December 31, 2008 that were not held during the prior year period, as well as the reclassification of Quench as an Affiliate investment.

The interest-bearing investment portfolio had an average cost basis of approximately $297.9 million for the nine months ended December 31, 2008, as compared to an average cost basis of $289.8 million for the nine months ended December 31, 2007. The following table lists the interest income from investments for the five largest portfolio companies during the respective periods:

Nine months ended December 31, 2008

Company	**Interest Income**	**%**

Chase II Holdings Corp.	$	2,138	11.2%
A. Stucki Holding Corp.		2,110	11.0%
Acme Cryogenics, Inc.		1,274	6.7%
Cavert II Holding Corp.		1,230	6.4%
Noble Logistics, Inc.		1,218	6.4%
Subtotal	$	7,970	41.7%
Other companies		11,137	58.3%
Total portfolio interest income	$	19,107	100.0%

Nine months ended December 31, 2007

Company		Interest Income	%
A. Stucki Holding Corp.	$	2,634	12.7%
Chase II Holdings Corp.		2,300	11.1%
Acme Cryogenics, Inc.		1,274	6.1%
Noble Logistics, Inc.		1,168	5.6%
Quench Holdings Corp.		1,127	5.4%
Subtotal	$	8,503	40.9%
Other companies		12,262	59.1%
Total portfolio interest income	$	20,765	100.0%

The annualized weighted average yield on our portfolio of investments, excluding cash and cash equivalents, was 8.12% for the nine months ended December 31, 2008 and 9.05% for the nine months ended December 31, 2007. This decrease is largely the result of declining interest rates. This has been offset, to some extent, by the increase in the size of our portfolio of investments in non-syndicated loans that typically bear higher interest rates than those of syndicated loans.

Interest income from cash and equivalents was $67 for the nine months ended December 31, 2008, as compared to $194 for the comparable prior year period. This decrease is a result of lower interest rates offered by banks, as this income is derived mainly from interest earned on overnight sweeps of cash held at financial institutions, in addition to our use of the proceeds from repayments on outstanding loans during the nine month period to pay down our line of credit.

Other income was $682 for the nine months ended December 31, 2008, as compared to $41 for the comparable prior year period. Other income is normally comprised of loan amendment fees that are received from portfolio companies and are amortized over the remaining life of the respective loans. However, in the second quarter of fiscal year 2009, we recognized as ordinary income $567 of dividends received on the restructuring of one of our then-Control investments (Quench). An additional $50 of dividends that were received was recorded as a reduction of our basis in the investment. The residual balance in other income is comprised of loan amendment fees that are amortized over the remaining lives of the respective loans and other miscellaneous income amounts. The result of this restructuring was the reclassification of Quench from a Control investment to an Affiliate investment. In addition, in the nine month period, $82 was received to cover expenses incurred on behalf of a potential portfolio company that was written off in a prior period which was recorded as other income.

Operating Expenses

Operating expenses, excluding any voluntary and irrevocable credits to the base management fee, were $11,399 for the nine months ended December 31, 2008, compared to $13,303 for the comparable prior year period.

Loan servicing fees of $3,769 were incurred for the nine months ended December 31, 2008, as compared to $3,741 for the comparable prior year period. These fees were incurred in connection with a loan servicing agreement between Business Investment and our Adviser in connection with our credit facility, which is based on the size of the aggregate outstanding loan portfolio. These fees reduced the amount of the management fee due to our Adviser as noted above. Loan servicing fees for the nine months ending December 31, 2008 remained steady when compared to the prior year period in conjunction with comparable loan portfolio balances for the two periods.

Base management fee was $1,303 for the nine months ended December 31, 2008, as compared to $1,310 for the comparable prior year period. The base management fee is computed quarterly as described under *Investment Advisory and Management Agreement* in Note 4 of the condensed consolidated financial statements, and is summarized in the table below:

	Nine months ended December 31, 2008		Nine months ended December 31, 2007	
Base management fee	$	1,303	$	1,310
Credits to base management fee from Adviser:				
Credit for fees received by Adviser from the portfolio companies		(744)		(688)
Fee reduction for the waiver of 2% fee on senior syndicated loans to 0.5% (1)		(1,220)		(1,244)
Credit to base management fee from Adviser		(1,964)		(1,932)
Net base management fee	**$**	**(661)**	**$**	**(622)**

(1) The board of our Adviser voluntarily waived the annual 2.0% base management fee to 0.5% for senior syndicated loan participations to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations.

The administration fee payable to our Administrator was $642 for the nine months ended December 31, 2008, as compared to $647 for the comparable prior year period. This fee consists of our allocable portion of our Administrator s rent and other overhead expenses, and our allocable portion of the salaries and benefits of our chief financial officer, chief compliance officer, treasurer, controller and their respective staffs. Our allocable portion of expenses is derived by multiplying the percentage of our average assets (the assets at the beginning and ending of each quarter) in comparison to the average assets of all companies managed by our Adviser that are under similar administration agreements with our Administrator. Administration fees for the comparable periods remained constant, as our total assets in relation to the other funds serviced by our Administrator were relatively even.

Interest expense for the nine months ended December 31, 2008 was $4,009, as compared to $5,819 for the comparable prior year period. Interest expense results from borrowings on our credit facility. Interest expense decreased during the current nine month period due to decreased borrowings on our credit facility when compared to the prior year period, as the majority of the proceeds from our rights offering were used to pay down the outstanding balance. While there was an increase in the interest rate margin charged on the outstanding borrowings upon renewing the facility on October 16, 2008, the LIBOR base rate decrease during the period offset this interest rate margin increase.

Amortization of deferred finance costs was $324 for the nine months ended December 31, 2008, as compared to $595 for the comparable prior year period. These costs are directly attributable to the amortization of the capitalized finance costs associated with our credit facility, which have been realized in full and are no longer being amortized. At December 31, 2008, all deferred finance costs had been fully amortized.

Professional fees were $383 for the nine months ended December 31, 2008, as compared to $356 for the comparable prior year period. Professional fees primarily consist of legal, fees and audit and accounting fees. The modest increase is mainly due to an increase in direct consulting and legal fees incurred on potential investments, as well as a slight increase in audit fees for the same comparable periods.

Stockholder related costs were $413 for the nine months ended December 31, 2008, as compared to $220 for the comparable prior year period. Stockholder related costs consist of the amortization of annual Nasdaq listing fees, transfer agent fees, annual report printing and distribution, and other annual meeting costs, costs associated with SEC filings and press release costs. The increase is primarily attributed to additional expenses incurred related to the solicitation of stockholder proxy votes for our annual meeting of stockholders in August 2008.

Insurance expense was $165 for the nine months ended December 31, 2008, as compared to $183 for the comparable prior year period. Insurance expense consists of the amortization of the directors and officers insurance policy and professional liability policy premiums, and the decrease is directly attributable to a reduction in these premiums for the current policy period.

Directors fees were $145 for the nine months ended December 31, 2008, as compared to $177 for the comparable prior year period. Directors fees consist of the amortization of the directors annual stipend and individual meeting fees. The decrease is due to fewer committee meetings held in the current year period.

Taxes and licenses expense was $83 for the nine months ended December 31, 2008, as compared to $125 for the comparable prior year period. These expenses consist primarily of franchise taxes due to the state of Delaware and other fees surrounding state and regulatory licensing, registration and other corporate filing fees. The decrease is mainly attributable to a reduction in the quarterly accrual for estimated taxes and license fees.

General and administrative expenses were $163 for the nine months ended December 31, 2008, as compared to $130 for the comparable prior year period. General and administrative expenses consist primarily of direct expenses such as travel related specifically to our portfolio companies, loan evaluation services for our portfolio companies and backup servicer expenses. The overall increase is mainly due to capitalized costs incurred in relation to potential investments that were not executed and were thus expensed in the current period.

Realized and Unrealized Loss on Investments

For the nine months ended December 31, 2008, we recognized a net loss on the sale of nine syndicated loan participations and the write off of another senior syndicate loan for an aggregate net loss on sale of non-control/non-affiliate investments of $4.2 million, and we recorded net unrealized depreciation of investments in the aggregate amount of $13.7 million. For the nine months ended December 31, 2007, we recognized a net loss of $198 resulting from additional legal expenses incurred in connection with the sale of one of our senior syndicated loans during the first quarter of fiscal year 2008. We recorded net unrealized depreciation of investments in the aggregate of $424 for the nine months ended December 31, 2007.

Unrealized depreciation for the nine months ended December 31, 2008 of approximately $13.7 million was primarily from our Affiliate investments, which partially was offset by appreciation in our Control investments. Our Affiliate investments depreciated in value by approximately $13.7 million, particularly in Danco, Noble, and Quench. Our Non-Control/Non-Affiliate investments also experienced decreases in value of $7.7 million, specifically Interstate Fibernet, Kronos, and RPG. Our Control investments appreciated in value by an aggregate amount of approximately $7.7 million, led by Chase and Galaxy.

We believe that our investment portfolio was valued at a depreciated value due primarily to the general instability of the loan markets. Additionally, our equity investments in two Control investments with an aggregate cost of $3.6 million have been written down to $0 fair value. Although our investment portfolio has depreciated, our entire portfolio was fair valued at 92% of cost as of December 31, 2008. The unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution.

Derivatives

For both the nine months ended December 31, 2008 and 2007, we recorded unrealized appreciation of our interest rate cap agreements purchased in October 2007 and February 2008 at nominal amounts.

Net (Decrease) Increase in Net Assets Resulting from Operations

Overall, we realized a net decrease in net assets resulting from operations of $7,467 for the nine months ended December 31, 2008 as a result of the factors discussed above. Our net (decrease) increase in net assets resulting from operations per basic and diluted weighted average common share for the nine months ended December 31, 2008 and 2007 was ($0.35) and $0.54, respectively. For the nine months ended December 31, 2007, we realized a net increase in net assets resulting from operations of $9,012. We will continue to incur base management fees, which will increase with any growth in our investment portfolio, and we may begin to incur incentive fees. Our administrative expenses payable to our Administrator could also grow during future periods if our average assets increase and the expenses incurred by our Administrator to support our operations grow.

LIQUIDITY AND CAPITAL RESOURCES (dollar amounts in thousands, unless otherwise indicated)

Operating Activities

Net cash provided by operating activities for the nine months ended December 31, 2008 was approximately $5.6 million and consisted primarily of principal loan repayments, net unrealized depreciation of our investments, and the sale of existing portfolio investments, offset by the purchase of two new Control investments and one new affiliate investment. Net cash used in operating activities for the nine months ended December 31, 2007 was approximately $63.1 million and consisted primarily of the purchase of new investments, offset by quarterly income, principal loan repayments, proceeds from sales of portfolio investments and a decrease in the amount due from our custodian.

A summary of our investment activity for the nine months ended December 31, 2008 and December 31, 2007 is as follows:

Quarter Ended	New Investments	Principal Repayments	Investments Sold	Realized Losses
June 30, 2008	$ 8,980	$ 3,493	$ 13,246	$ (1,717)
September 30, 2008	27,632	18,791	50	(2,498)
December 31, 2008	11,043	4,469		
Total	$ 47,655	$ 26,753	$ 13,296	$ (4,215)

Quarter Ended	New Investments	Principal Repayments	Investments Sold	Realized Losses
June 30, 2007	$ 72,601	$ 21,358	$ 5,810	$ (48)
September 30, 2007	41,183	16,948		(4)
December 31, 2007	43,551	21,417	9,887	(146)
Total	$ 157,335	$ 59,723	$ 15,697	$ (198)

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

		Amount
For the remaining three months ending March 31:	2009	$ 5,499
For the fiscal year ending March 31:	2010	14,057
	2011	33,537
	2012	78,579
	2013	27,341
	2014	98,545

Thereafter		51,239
Total contractual repayments	**$**	**308,797**
Investments in equity securities		45,322
Unamortized premiums on debt securities		50
Total	**$**	**354,169**

Financing Activities

During the nine months ended December 31, 2008, net cash used in financing activities was approximately $1.8 million, which was primarily a result of repayments on our line of credit in excess of borrowings by approximately $27.0 million, in addition to our distributions paid to stockholders of $15.5 million. This was partially offset, however, by the Rights Offering (defined below), which provided net proceeds of $40.6 million.

Issuance of Equity

During fiscal year 2007, we filed a registration statement with the SEC, which we refer to as the Registration Statement, that permits us to issue, through one or more transactions, up to an aggregate of $300 million in securities, consisting of common stock, preferred stock, subscription rights and/or debt securities, of which, to date, we have issued $41.3 million in common stock, which leaves a remaining capacity of $258.7 million. To date, we have incurred approximately $695,000 of costs in connection with the Registration Statement.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. Additionally, when our common stock is trading below net asset value, we will have regulatory constraints under the 1940 Act on our ability to obtain additional capital in this manner. At December 31, 2008, our stock closed trading at $4.91, representing a 48% discount to our net asset value of $10.15 per share. Generally, the 1940 Act provides that we may not issue common stock for a price below net asset value per share, without first obtaining the approval of our stockholders and our independent directors or through a rights offering.

We raised additional capital within these regulatory constraints in April 2008 through an offering of transferable subscription rights to purchase additional shares of common stock, which we refer to as the Rights Offering. Pursuant to the Rights Offering, we sold 5,520,033 shares of our common stock at a subscription price of $7.48, which represented a purchase price equal to 93% of the weighted average closing price of our stock in the last five trading days of the subscription period. Net proceeds of the offering, after offering expenses borne by us, were approximately $40.6 million and were used to repay outstanding borrowings under our line of credit. Should our common stock continue to trade below its net asset value per share, we may seek to conduct similar offerings in the future in order to raise additional capital, although there can be no assurance that we will be successful in our efforts to raise capital.

Future Capital Resources

During our annual stockholders meeting on August 7, 2008, our stockholders approved a proposal that allows us to issue long-term rights, including warrants to purchase shares of our common stock at an exercise price per share that will not be less than the greater of the market value or net asset value of our common stock at a time such rights may be issued.

During our annual stockholders meeting on August 7, 2008, our stockholders also approved a proposal that now allows us to sell shares of our common stock at a price below our then current net asset value per share should we choose to do so. This proposal is in effect until our next annual stockholders meeting.

Revolving Credit Facility

Through our wholly-owned subsidiary, Business Investment, we initially obtained a $100 million revolving credit facility, which we refer to as the Credit Facility. On October 19, 2006, we executed a purchase and sale agreement pursuant to which we agreed to sell certain loans to Business Investment in consideration for a membership interest therein. Simultaneously, Business Investment executed a credit agreement, which we refer to as the Credit Agreement, with Deutsche Bank AG, New York Branch, as administrative agent, and others, pursuant to which Business Investment pledged the loans purchased from us to secure future advances by certain institutional lenders. Availability under the Credit Facility was subsequently amended and extended such that the borrowing capacity was raised to $200 million.

On October 16, 2008, the Credit Facility was further amended and extended such that the borrowing capacity was reduced to $125 million and availability under the Credit Facility was extended to April 16, 2009. If the Credit Facility is not renewed or extended, all principal and interest will be immediately due and payable on April 16, 2009. There can be no guarantee that we will be able to renew, extend or replace the credit facility on terms that are favorable to us, or at all. Our ability to obtain replacement financing will be constrained by current economic conditions affecting the credit markets, which have significantly deteriorated over the last several months and may further decline. Consequently, any renewal, extension or refinancing of the credit facility will likely result in significantly higher interest rates and related charges and may impose significant restrictions on the use of borrowed funds with regard to our ability to fund investments. Any advances under the Credit Facility will generally bear interest at the commercial paper rate plus 3.5% per annum, with a commitment fee of 0.75% per annum on the undrawn amounts. There was no fee in connection with this renewal. As of January 6, 2009, there was an outstanding principal balance of $115.8 million under the Credit Facility at an interest rate of 2.4%, plus an additional fee related to borrowings of 3.5%, for an aggregate rate of approximately 5.9%. Available borrowings are subject to various constraints imposed under the Credit Agreement, based on the aggregate loan balance pledged by Business Investment, which varies as loans are added and repaid, regardless of whether such repayments are early prepayment or are made as contractually required. At January 6, 2009, the remaining borrowing capacity available under the Credit Facility was approximately $9.2 million.

The Credit Facility contains covenants that require Business Investment to maintain its status as a separate entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions); and restrict material changes to our credit and collection policies. The facility also restricts some of the terms and provisions (including interest rates, terms to maturity and secure advances. As of December 31, 2008, Business Investment was in compliance with all of the facility covenants.

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

Our Adviser services the loans pledged under the Credit Facility. As a condition to this servicing arrangement, we executed a performance guaranty pursuant to which we guaranteed that our Adviser would comply fully with all of its obligations under the Credit Facility. The performance guaranty requires us to maintain a minimum net worth of $100 million and to maintain asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 if the 1940 Act. As of December 31, 2008, we were in compliance with our covenants under the performance guaranty.

However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. In particular, depreciation in the valuation of our assets, which valuation is subject to changing market conditions which are presently very volatile, affects our ability to comply with these covenants. During the nine months ended December 31, 2008, net unrealized depreciation on our investments was approximately $13.7 million, compared to $424 during the comparable period in the prior year. Given the continued deterioration in the capital markets, net unrealized depreciation in our portfolio may continue to increase in future periods and threaten our ability to comply with the covenants under our Credit Facility. Accordingly, there are no assurances that we will continue to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders, could accelerate our repayment obligations under the Credit Facility and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay distributions to our stockholders.

Availability under the Credit Facility will terminate on April 16, 2009. If the Credit Facility is not renewed or extended by this date, all principal and interest will be immediately due and payable. There can be no guarantee that we will be able to renew, extend or replace the credit facility on terms that are favorable to us, or at all. Our ability to obtain replacement financing will be constrained by current economic conditions affecting the credit markets, which have significantly deteriorated over the last several months and may decline further. Consequently, any renewal, extension or refinancing of the Credit Facility will likely result in significantly higher interest rates and related charges and may impose significant restrictions on the use of borrowed funds with regard to our ability to fund investments or maintain distributions to our stockholders. For instance, in connection with our most recent renewal, the size of the Credit Facility was reduced from $200 million to $125 million. If we are not able to renew, extend or refinance the Credit Facility, this would likely have a material adverse effect on our liquidity and ability to fund new investments or maintain our distributions to our stockholders. Our inability to pay distributions to our stockholders could result in us failing to qualify as a RIC. Consequently, any income or gains could become taxable at corporate rates. If we are unable to secure replacement financing, we may be forced to sell certain assets on disadvantageous terms, which may result in realized losses, and such realized losses could materially exceed the amount of any unrealized depreciation on these assets as of our most recent balance sheet date, which would have a material adverse effect on our results of operations. In addition to selling assets, or as an alternative, we may issue equity in order to repay amounts outstanding under the Credit Facility. Based on the recent trading prices of our stock, such an equity offering may have a substantial dilutive impact on our existing stockholders interest in our earnings and assets and voting interest in us.

Distributions

In order to qualify as a RIC, we are required, under Subchapter M of the Code, to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. In accordance with these requirements, we declared and paid monthly cash distributions of $0.08 per common share for October, November and December 2008. In January 2009, our Board of Directors declared a monthly distribution of $0.08 per common share for each of January, February and March 2009.

For the three months ended December 31, 2008, our distribution payments of approximately $5.3 million exceeded our net investment income by approximately $1.7 million. We declared these distributions based on our estimates of net investment income for the fiscal year. Our investment pace continues to be slower than expected in our third year of operations and, consequently, our net investment income was lower than our original estimates.

Contractual Obligations and Off-Balance Sheet Arrangements

We were not a party to any signed term sheets for potential investments or any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K as of December 31, 2008.

In October 2008, the Company executed a guaranty of a vehicle finance facility agreement between Ford Motor Credit Company, or FMC, and Auto Safety House, LLC, or ASH, one of the Company s control investments, which we refer to as the Finance Facility. The Finance Facility provides ASH with a line of credit of up to $500,000 for component Ford parts used by ASH to build truck bodies under a separate contract. Title and ownership of the parts is retained by Ford. The guaranty of the Finance Facility will expire upon termination of the separate parts supply contract with Ford or upon replacement of the Company as guarantor. The Finance Facility is secured by the assets of the Company. As of December 31, 2008, the Company has not been required to make any payments on the guaranty of the Finance Facility.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates. We have identified our investment valuation process which was amended for the quarter ended December 31, 2008, which is presented below, as our most critical accounting policy.

Investment Valuation

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

General Valuation Policy: We value our investments in accordance with the requirements of the 1940 Act. As discussed more fully below, we value securities for which market quotations are readily available and reliable at their market value. We value all other securities and assets at fair value as determined in good faith by our Board of Directors.

Investment Valuation Policy

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

General Valuation Policy: We value our investments in accordance with the requirements of the 1940 Act. As discussed more fully below, we value securities for which market quotations are readily available and reliable at their market value. We value all other securities and assets at fair value as determined in good faith by our Board of Directors.

We use generally accepted valuation techniques to value our portfolio unless we have specific information about the value of an investment to determine otherwise. From time to time we may accept an appraisal of a business in which we hold securities. These appraisals are expensive and occur infrequently but provide a third-party valuation opinion that may differ in results, techniques and scopes used to value our investments. When these specific third-party appraisals are engaged or accepted, we would use such appraisals to value the investment we have in that business if we determined that the appraisals were the best estimate of fair value.

In determining the value of our investments, our Adviser has established an investment valuation policy, which we refer to as the Policy. The Policy has been approved by our Board of Directors and each quarter the Board of Directors reviews whether our Adviser has applied the Policy consistently, and votes whether or not to accept the recommended valuation of our investment portfolio.

The Policy, which is summarized below, applies to the following categories of securities:

- Publicly-traded securities;

- Securities for which a limited market exists; and
- Securities for which no market exists.

Valuation Methods

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

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

In the event these limited markets become illiquid such that market prices are no longer readily available, we will value our syndicated loans using estimated net present values of the future cash flows or discounted cash flows . The use of a DCF methodology follows that prescribed by FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP No. 157-3), which provides guidance on the use of a reporting entity s own assumptions about future cash flows and risk-adjusted discount rates when relevant observable inputs, such as quotes in active markets, are not available. When relevant observable market data does not exist, the alternative outlined in the FSP No. 157-3 is the use of valuing investments based on DCF. For the purposes of using DCF to provide fair value estimates, we considered multiple inputs such as a risk-adjusted discount rate that incorporates adjustments that market participants would make both for nonperformance and liquidity risks. As such, we developed a modified discount rate approach that incorporates risk premiums including, among others, increased probability of default, or higher loss given default, or increased liquidity risk.

The DCF valuations applied to the syndicated loans provide an estimate of what we believe a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. We will continue to apply the DCF methodology in illiquid markets until quoted prices based on trading activity are deemed reliable.

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

(1) **Portfolio investments comprised solely of debt securities:** Debt securities that are not publicly traded on an established securities market, or for which a limited market does not exist (Non-Public Debt Securities), and that are issued by portfolio companies where we have no equity, or equity-like securities, are fair valued in accordance with the terms of the policy, which utilizes opinions of value submitted to us by Standard & Poor s Securities Evaluations, Inc. (SPSE).

In the case of Non-Public Debt Securities, we have engaged SPSE to submit opinions of value for our debt securities that are issued by portfolio companies in which we own no equity, or equity-like securities. SPSE s opinions of value are based on the valuations prepared by our portfolio management team as described below. We request that SPSE also evaluate and assign values to success fees (conditional interest included in some loan securities) when we determine that the probability of receiving a success fee on a given loan is above 6-8%, a threshold of significance. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation, and may decline to make requested evaluations for any reason at its sole discretion. Upon completing our collection of data with respect to the investments (which may include the information described below under Credit Information, the risk ratings of the loans described below under Loan Grading and Risk Rating and the factors described hereunder), this valuation data is forwarded to SPSE for review and analysis. SPSE makes its independent assessment of the data that we have assembled and assesses its independent data to form an opinion as to what they consider to be the market values for the securities. With regard to its work, SPSE has issued the following paragraph:

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

SPSE opinions of value of our debt securities that are issued by portfolio companies where we have no equity, or equity-like securities are submitted to our Board of Directors along with our Adviser s supplemental assessment and recommendation regarding valuation of each of these investments. Our Adviser generally accepts the opinion of value given by SPSE, however, in certain limited circumstances, such as when our Adviser may learn new information regarding an investment between the time of submission to SPSE and the date of the Board assessment, our Adviser s conclusions as to value may differ from the opinion of value delivered by SPSE. Our Board of Directors then reviews whether our Adviser has followed its established procedures for determinations of fair value, and votes to accept or reject the recommended valuation of our investment portfolio. Our Adviser and our management recommended, and the Board of Directors voted to accept, the opinions of value delivered by SPSE on the loans in our portfolio as denoted on the Schedule of Investments as of December 31, 2008 included in our accompanying consolidated financial statements.

Because there is a delay between when we close an investment and when the investment can be evaluated by SPSE, new loans are not valued immediately by SPSE; rather, management makes its own determination about the value of these investments in accordance with our valuation policy using the methods described herein.

(2) **Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and/or equity securities:** For our Non-Public Debt Securities and equity or equity-like securities (e.g. preferred equity, equity, or other equity-like securities) that are purchased together as part of a package, where we have control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the mergers and acquisition market as the principal market, generally through a sale or recapitalization of the portfolio company. Further, we believe that the in-use premise of value (as defined in SFAS 157), which assumes the debt and equity securities are sold together, is appropriate as this would provide maximum proceeds to the seller. As a result, we will continue to use the enterprise value methodology utilizing a liquidity waterfall approach to determine the fair value of these investments under SFAS 157 if we have the ability to initiate a sale of a portfolio company as of the measurement date. Under this approach, we first calculate the total enterprise value of the issuer by incorporating some or all of the following factors:

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

In gathering the sales to third parties of similar securities, we may reference industry statistics and use outside experts. Once we have estimated the total enterprise value of the issuer, we subtract the value of all the debt securities of the issuer; which are valued at the contractual principal balance. Fair values of these debt securities are discounted for any shortfall of total enterprise value over the total debt outstanding for the issuer. Once the values for all outstanding senior securities (which include the debt securities) have been subtracted from the total enterprise value of the issuer, the remaining amount, if any, is used to determine the value of the issuer s equity or equity like securities.

(3) **Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and/or equity securities:** We value Non-Public Debt Securities that are purchased together with equity and equity-like securities from the same portfolio company, or issuer, for which

we do not control or cannot gain control as of the measurement date, using a hypothetical secondary market as our principal market. In accordance with SFAS 157, we determine the fair value of these debt securities of non-control investments assuming the sale of an individual debt security using the in-exchange premise of value (as defined in SFAS 157). As such, we estimate the fair value of the debt component using estimates of value provided by SPSE and our own assumptions in the absence of market observable data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity and equity-like securities of investments for which we do not control or cannot gain control as of the measurement date, we value the equity portion based principally on the total enterprise value of the issuer, which is calculated using a liquidity waterfall approach.

Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the securities existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that we might reasonably expect to receive upon the current sale of the security in an arms-length transaction in the security s principal market.

Valuation Considerations: From time to time, depending on certain circumstances, the Adviser may use the following valuation considerations, including but not limited to:

- 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;
- the comparison to publicly traded companies; and
- discounted cash flow and other relevant factors.

Because such valuations, particularly valuations of private securities and private companies, are not susceptible to precise determination, may fluctuate over short periods of time, and may be based on estimates, our determinations of fair value may differ from the values that might have actually resulted had a readily available market for these securities been available.

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

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

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

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

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

The above scale gives an indication of the probability of default and the magnitude of the loss if there is a default. Our policy is to stop accruing interest on an investment if we determine that interest is no longer collectible. At December 31, 2008 and March 31, 2008, two investments were on non-accrual for an aggregate, at cost, of approximately $11.5 million and $8.9 million, respectively. Additionally, we do not risk rate our equity securities.

The following table lists the risk ratings for all non-syndicated loans in our portfolio at December 31, 2008 and March 31, 2008, representing approximately 59% and 51%, respectively, of all loans in our portfolio at the end of each period:

Rating	**December 31, 2008**	**March 31, 2008**
Highest	7.0	7.0
Average	5.4	5.5
Weighted Average	5.0	5.1
Lowest	2.0	1.0

The following table lists the risk ratings for syndicated loans in our portfolio that were not rated by a NRSRO at December 31, 2008 and March 31, 2008, representing approximately 12% and 13%, respectively, of all loans in our portfolio at the end of each period:

Rating	December 31, 2008	March 31, 2008
Highest	9.0	9.0
Average	7.9	7.1
Weighted Average	7.8	7.3
Lowest	7.0	1.0

For syndicated loans that are currently rated by a NRSRO, we risk rate such loans in accordance with the risk rating systems of major risk rating organizations, such as those provided by a NRSRO. The following table lists the risk ratings for all syndicated loans in our portfolio that were rated by a NRSRO at December 31, 2008 and March 31, 2008, representing approximately 29% and 36%, respectively, of all loans in our portfolio at the end of each period:

Rating	December 31, 2008	March 31, 2008
Highest	BB/Ba2	BB/Ba2
Average	B/B2	B+/B1
Weighted Average	B/B2	B+/B1
Lowest	CCC+/D	CCC+/B2

Tax Status

We intend to continue to qualify for treatment as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code. As a RIC, we are not subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute to stockholders at least 90% of investment company taxable income, as defined by the Code. It is our policy to pay out as a distribution up to 100% of those amounts.

In an effort to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year, an amount at least equal the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years.

Revenue Recognition

Interest and Dividend Income Recognition

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. We will stop accruing interest on investments when it is determined that interest is no longer collectible. At December 31, 2008, one Non-Control/Non-Affiliate investment was on non-accrual with a cost basis of approximately $4.6 million, or 1.5% of the cost basis of all loans in our portfolio, and one Control investment was on non-accrual with a cost basis of approximately $6.9 million, or 2.2% of the cost basis of all loans in our portfolio. At March 31, 2008, one Non-Control/Non-Affiliate investment was on non-accrual with a cost basis of approximately $2.9 million, or 0.9% of the cost basis of all loans in our portfolio, and one Control investment was on non-accrual with a cost basis of approximately $6.0 million, or 1.9% of the cost basis of all loans in our portfolio. Conditional interest, or a success fee, is recorded when earned upon full repayment of a loan investment. To date we have not recorded any conditional interest. Dividend income on preferred equity securities is accrued to the extent that such amounts are expected to be collected and that we have the option to collect such amounts in cash. To date, we have not accrued any dividend income.

Services Provided to Portfolio Companies

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

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

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

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

Recent Accounting Pronouncements

Refer to Note 2 in the accompanying condensed consolidated financial statements for a summary of all recently issued accounting pronouncements.

GLADSTONE INVESTMENT CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	December 31, 2008	March 31, 2008
ASSETS		
Non-Control/Non-Affiliate investments (Cost 12/31/08: $138,599; Cost 3/31/08:$166,416)	$ 107,208	$ 142,739
Control investments (Cost 12/31/08: $152,395; Cost 3/31/08: $138,354)	167,175	145,407
Affiliate investments (Cost 12/31/08: $63,175; Cost 3/31/08: $46,035)	50,912	47,458
Total investments at fair value (Cost 12/31/08: $354,169; Cost 3/31/08: $350,805)	325,295	335,604
Cash and cash equivalents	13,123	9,360
Interest receivable	1,616	1,662
Prepaid insurance	153	90
Deferred finance costs		324
Due from Custodian	2,430	4,399
Due from Adviser (Refer to Note 4)		89
Other assets	470	765
TOTAL ASSETS	$ 343,087	$ 352,293
LIABILITIES		
Fee due to Administrator (Refer to Note 4)	$ 195	$ 208
Fee due to Adviser (Refer to Note 4)	55	
Borrowings under line of credit	117,864	144,835
Accrued expenses	717	716
Other liabilities	139	89
TOTAL LIABILITIES	118,970	145,848
NET ASSETS	$ 224,117	$ 206,445
ANALYSIS OF NET ASSETS:		
Common stock, $0.001 par value, 100,000,000 shares authorized, 22,080,133 and 16,560,100 shares issued and outstanding at December 31, 2008 and March 31, 2008, respectively	$ 22	$ 16
Capital in excess of par value	264,762	224,173
Net unrealized depreciation of investment portfolio	(28,874)	(15,201)
Net unrealized depreciation of derivative	(53)	(53)
Accumulated net investment loss	(11,740)	(2,490)
TOTAL NET ASSETS	$ 224,117	$ 206,445
NET ASSETS PER SHARE	$ 10.15	$ 12.47

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF DECEMBER 31, 2008

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS				
Senior Syndicated Loans:				
Activant Solutions, Inc.	Service - enterprise software and services	Senior Term Debt (6.1%, Due 5/2013) (3)	$ 1,659	$ 1,224
Advanced Homecare Holdings, Inc.	Service - home health nursing services	Senior Term Debt (4.2%, Due 8/2014) (3)	2,955	2,261
Aeroflex, Inc.	Service - provider of highly specialized electronic equipment	Senior Term Debt (5.4%, Due 8/2014) (3)	1,888	1,492
Compsych Investments Corp.	Service - employee assistance programs	Senior Term Debt (4.0%, Due 2/2012) (3)	3,167	2,750
CRC Health Group, Inc.	Service - substance abuse treatment	Senior Term Debt (3.7%, Due 2/2012) (3)	7,795	6,285
Critical Homecare Solutions, Inc.	Service - home therapy and respiratory treatment	Senior Term Debt (3.7%, Due 1/2012) (3)	4,418	3,801
Generac Acquisition Corp.	Manufacturing - standby power products	Senior Term Debt (6.7%, Due 11/2013) (3)	6,869	5,162
Graham Packaging Holdings Company	Manufacturing - plastic containers	Senior Term Debt (5.5%, Due 10/2011) (3)	3,399	2,768
Hargray Communications Group, Inc.	Service - triple-play (cable, phone, internet) provider	Senior Term Debt (3.4%, Due 6/2014) (3)	894	626
HMTBP Acquisition II Corp.	Service - aboveground storage tanks	Senior Term Debt (5.4%, Due 5/2014) (3)	3,848	2,873
Huish Detergents, Inc.	Manufacturing - household cleaning products	Senior Term Debt (2.2%, Due 4/2014) (3)	1,971	1,421
Hyland Software, Inc.	Service - provider of enterprise content management software	Senior Term Debt (5.6%, Due 7/2013) (3)	3,920	3,188
Interstate Fibernet, Inc.	Service - provider of voice and data telecommunications services	Senior Term Debt (5.5%, Due 7/2013) (3)	9,863	7,252
KIK Custom Products, Inc.	Manufacturing - consumer products	Senior Term Debt (5.8%, Due 5/2014) (3)	3,951	2,590
Kronos, Inc.	Service - workforce management solutions	Senior Term Debt (3.7%, Due 6/2014) (3)	1,904	1,331
Local TV Finance, LLC	Service - television station operator	Senior Term Debt (2.5%, Due 5/2013) (3)	987	725
LVI Services, Inc.	Service - asbestos and mold remediation	Senior Term Debt (6.5%, Due 11/2010) (3)	5,933	5,162
MedAssets, Inc.	Service - pharmaceuticals and healthcare GPO	Senior Term Debt (5.3%, Due 10/2013) (3)	3,973	3,121
Network Solutions, LLC	Service - internet domain solutions	Senior Term Debt (3.3%, Due 3/2014) (3)	8,673	6,120
Open Solutions, Inc.	Service - software outsourcing for financial institutions	Senior Term Debt (6.0%, Due 1/2014) (3)	2,656	1,936

Ozburn-Hessey Holding Co. LLC	Service - third party logistics	Senior Term Debt (5.6%, Due 8/2012) (3)	7,549	6,079
Pinnacle Foods Finance, LLC	Manufacturing - branded food products	Senior Term Debt (6.1%, Due 4/2014) (3)	1,955	1,367
PTS Acquisition Corp.	Manufacturing - drug delivery and packaging technologies	Senior Term Debt (3.7%, Due 4/2014) (3)	6,895	5,026
QTC Acquisition, Inc.	Service - outsourced disability evaluations	Senior Term Debt (4.1%, Due 11/2012) (3)	1,914	1,462

Radio Systems Corporation	Service - design electronic pet containment products	Senior Term Debt (3.6%, Due 9/2013) (3)	1,876	1,391
Rally Parts, Inc.	Manufacturing - aftermarket motorcycle parts and accessories	Senior Term Debt (3.6%, Due 11/2013) (3)	2,471	1,769
RPG Holdings, Inc.	Manufacturing and design - greeting cards	Senior Term Debt (non-accrual) (8)	4,553	2,048
SafeNet, Inc.	Service - chip encryption products	Senior Term Debt (7.8%, Due 4/2014) (3)	2,957	2,107
SGS International, Inc.	Service - digital imaging and graphics	Senior Term Debt (4.1%, Due 12/2011) (3)	1,475	1,226
Survey Sampling, LLC	Service - telecommunications-based sampling	Senior Term Debt (9.5%, Due 5/2011) (3)	2,598	2,386
Triad Laboratory Alliance, LLC	Service - regional medical laboratories	Senior Term Debt (4.7%, Due 12/2011) (3)	4,131	3,527
Wastequip, Inc.	Service - process and transport waste materials	Senior Term Debt (2.7%, Due 2/2013) (3)	2,900	2,139
WaveDivision Holdings, LLC	Service - cable	Senior Term Debt (4.4%, Due 6/2014) (3)	1,910	1,466
West Corporation	Service - business process outsourcing	Senior Term Debt (3.5%, Due 10/2013) (3)	3,331	2,446
Subtotal - Senior Syndicated Loans			$ 127,238	$ 96,527
Non-Syndicated Loans				
B-Dry, LLC	Service - basement waterproofer	Revolving Credit Facility, $300 available (10.5%, Due 10/2009)	$ 450	$ 442
		Senior Term Debt (10.0%, Due 5/2014) (5)	6,681	6,447
		Senior Term Debt (10.0%, Due 5/2014) (5)	3,930	3,792
		Common Stock Warrants (4)	300	
			11,361	10,681
Total Non-Control/Non-Affiliate Investments			**$ 138,599**	**$ 107,208**

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF DECEMBER 31, 2008

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company (1)	**Industry**	**Investment (2)**	**Cost**	**Fair Value**
CONTROL INVESTMENTS				
A. Stucki Holding Corp.	Manufacturing - railroad freight car products	Senior Term Debt (6.4%, Due 3/2012)	$ 11,782	$ 11,782
		Senior Term Debt (8.7%, Due 3/2012) (6)	10,587	10,587
		Senior Subordinated Term Debt (13%, Due 3/2014)	8,586	8,586
		Preferred Stock (4)	4,387	5,034
		Common Stock (4)	130	12,635
			35,472	48,624
Acme Cryogenics, Inc.	Manufacturing - manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2013)	14,500	14,500
		Redeemable Preferred Stock (4)	6,984	7,557
		Common Stock (4)	1,045	
		Common Stock Warrants (4)	25	
			22,554	22,057
ASH Holdings Corp.	Retail and Service - school buses and parts	Revolver, $400 available (non-accrual, Due 3/2010)	1,600	
		Senior Subordinated Term Debt (non-accrual, Due 1/2012)	5,250	
		Preferred Stock (4)	2,500	
		Common Stock Warrants (4)	4	
			9,354	
Cavert II Holding Corp.	Manufacturing - bailing wire	Revolving Credit Facility, $1,200 available (8.0%, Due 10/2010)	1,800	1,800
		Senior Term Debt (8.3%, Due 10/2012)	5,850	5,850
		Senior Term Debt (10.0%, Due 10/2012) (6)	3,000	3,000
		Senior Subordinated Term Debt (13%, Due 10/2014)	4,671	4,671
		Preferred Stock (4)	4,110	4,503
		Common Stock (4)	69	906
			19,500	20,730
Chase II Holdings Corp.	Manufacturing - traffic doors	Revolving Credit Facility, $1,105 available (5.9%, Due 3/2009)	3,395	3,395
			9,075	9,075

		Senior Term Debt (8.8%, Due 3/2011)		
		Senior Term Debt (12.0%, Due 3/2011) (6)	7,720	7,720
		Senior Subordinated Term Debt (13.0%, Due 3/2013)	6,168	6,168
		Redeemable Preferred Stock (4)	6,961	9,089
		Common Stock (4)	61	7,620
			33,380	43,067
Country Club Enterprises, LLC	Service golf cart distribution	Subordinated Term Debt (14.0% Due 11/2014) (7)	7,000	7,000
		Preferred Stock (4), (7)	3,725	3,725
			10,725	10,725
Galaxy Tool Holding Corp.	Manufacturing - aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2013)	17,250	17,250
		Preferred Stock (4)	4,112	4,333
		Common Stock (4)	48	389
			21,410	21,972
Total Control Investments			**$ 152,395**	**$ 167,175**

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF DECEMBER 31, 2008

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
AFFILIATE INVESTMENTS				
Danco Acquisition Corp.	Manufacturing - machining and sheet metal work	Revolving Credit Facility, $2,600 available (9.3%, Due 10/2010)	$ 400	$ 376
		Senior Term Debt (9.3%, Due 10/2012) (5)	5,100	4,807
		Senior Term Debt (11.5%, Due 4/2013) (5)	9,135	8,496
		Redeemable Preferred Stock (4)	2,500	2,664
		Common Stock Warrants (4)	3	
			17,138	16,343
Mathey Investments, Inc.	Manufacturing - pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, $2,000 available (9.0%, Due 3/2011)		
		Senior Term Debt (9.0%, Due 3/2013) (5)	2,406	2,346
		Senior Term Debt (12.0%, Due 3/2014) (5), (6)	7,245	7,037
		Common Stock (4)	500	586
		Common Stock Warrants (4)	277	342
			10,428	10,311
Noble Logistics, Inc.	Service - aftermarket auto parts delivery	Revolving Credit Facility, $-0- available (7.4%, Due 12/2009)	2,000	1,598
		Senior Term Debt (10.5%, Due 12/2011) (5)	5,727	4,574
		Senior Term Debt (12.5%, Due 3/2011) (5), (6)	7,300	5,831
		Preferred Stock (4)	1,750	
		Common Stock (4)	1,682	
			18,459	12,003
Quench Holdings Corp.	Service - sales, installation and service of water coolers	Senior Subordinated Term Debt (10.0%, Due 8/2013) (5)	8,000	5,200
		Preferred Stock (4)	2,950	1,433
		Common Stock Warrants (4)	447	
			11,397	6,633
Tread Corp.	Service - regional medical laboratories	Senior Term Debt (12.5%, Due 5/2013) (5)	5,000	4,875
		Preferred Stock (4)	750	747
		Common Stock Warrants (4)	3	

		5,753		5,622
Total Affiliate Investments	$	63,175	$	50,912
Total Investments	$	354,169	$	325,295

(1) Certain of the listed securities are issued by affiliate(s) of the indicated portfolio company.
(2) Percentage represents the weighted average interest rates in effect at December 31, 2008, and due date represents the contractual maturity date.
(3) Security valued using internally-developed, risk-adjusted discounted cash flow methodologies as of December 31, 2008.
(4) Security is non-income producing.
(5) Fair value based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at December 31, 2008.
(6) Last Out Tranche of senior debt, meaning if the portfolio company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.
(7) Valued at cost due to recent acquisition.
(8) Security valued based on the indicative bid price on or near December 31, 2008, offered by the respective syndication agent s trading desk, or secondary desk.

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF MARCH 31, 2008

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS				
Senior Syndicated Loans:				
Activant Solutions, Inc.	Service - enterprise software and services	Senior Term Debt (6.7%, Due 5/2013) (3)	$ 1,734	$ 1,478
Advanced Homecare Holdings, Inc.	Service - home health nursing services	Senior Term Debt (6.4%, Due 8/2014) (3)	2,977	2,829
Aeroflex, Inc.	Service - provider of highly specialized electronic equipment	Senior Term Debt (6.4%, Due 8/2014) (3)	1,898	1,851
Compsych Investments Corp.	Service - employee assistance programs	Senior Term Debt (5.5%, Due 2/2012) (3), (5)	3,421	2,965
CRC Health Group, Inc.	Service substance abuse treatment	Senior Term Debt (4.9%, Due 2/2012) (3)	9,878	8,536
Critical Homecare Solutions, Inc.	Service - home therapy and respiratory treatment	Senior Term Debt (6.1%, Due 1/2012) (3), (5)	4,505	4,480
Dealer Computer Services, Inc.	Manufacturing & Service - systems for automotive retailers	Senior Term Debt (6.8%, Due 9/2013) (3)	1,799	1,595
Generac Acquisition Corp.	Manufacturing - standby power products	Senior Term Debt (7.2%, Due 11/2013) (3), (5)	6,874	5,435
Graham Packaging Holdings Company	Manufacturing - plastic containers	Senior Term Debt (5.9%, Due 10/2011) (3)	5,420	4,938
Hargray Communications Group, Inc.	Service - triple-play (cable, phone, internet) provider	Senior Term Debt (4.9%, Due 6/2014) (3)	963	860
HMTBP Acquisition II Corp.	Service - aboveground storage tanks	Senior Term Debt (4.9%, Due 5/2014) (3), (5)	3,878	3,529
Hudson Products Holdings, Inc.	Manufacturing - heat transfer solutions	Senior Term Debt (7.0%, Due 12/2013) (3)	6,020	5,283
Huish Detergents, Inc.	Manufacturing - household cleaning products	Senior Term Debt (4.7%, Due 4/2014) (3)	1,986	1,652
Hyland Software, Inc.	Service - provider of enterprise content management software	Senior Term Debt (5.9%, Due 7/2013) (3)	3,955	3,671

Interstate Fibernet, Inc.	Service - provider of voice and data telecommunications services	Senior Term Debt (6.7%, Due 7/2013) (3)	9,932	9,676
KIK Custom Products, Inc.	Manufacturing - consumer products	Senior Term Debt (4.9%, Due 5/2014) (3)	3,981	2,746
Kronos, Inc.	Service - workforce management solutions	Senior Term Debt (5.0%, Due 6/2014) (3)	1,971	1,577
Lexicon Marketing USA, Inc.	Service - marketing to Hispanic community	Senior Term Debt (non-accrual) (3), (5)	2,947	412
Local TV Finance, LLC	Service - television station operator	Senior Term Debt (5.2%, Due 5/2013) (3)	995	824
LVI Services, Inc.	Service - asbestos and mold remediation	Senior Term Debt (7.5%, Due 11/2010) (3), (5)	6,369	5,083
MedAssets, Inc.	Service - pharmaceuticals and healthcare GPO	Senior Term Debt (5.2%, Due 10/2013) (3), (5)	4,004	3,702
National Mentor Holdings, Inc.	Service - home health care	Senior Term Debt (4.8%, Due 6/2013) (3)	1,968	1,672
Network Solutions, LLC	Service - internet domain solutions	Senior Term Debt (5.2%, Due 3/2014) (3)	9,196	7,355
NPC International Inc.	Service - Pizza Hut franchisee	Senior Term Debt (4.7%, Due 5/2013) (3)	2,895	2,537
Open Solutions, Inc.	Service - software outsourcing for financial institutions	Senior Term Debt (5.8%, Due 1/2014) (3)	2,678	2,196
Ozburn-Hessey Holding Co. LLC	Service - third party logistics	Senior Term Debt (6.3%, Due 8/2012) (3)	7,628	5,979
Pinnacle Foods Finance, LLC	Manufacturing - branded food products	Senior Term Debt (7.4%, Due 4/2014) (3)	3,971	3,454
PTS Acquisition Corp.	Manufacturing - drug delivery and packaging technologies	Senior Term Debt (7.1%, Due 4/2014) (3)	6,948	5,697
QTC Acquisition, Inc.	Service - outsourced disability evaluations	Senior Term Debt (5.4%, Due 11/2012) (3)	1,930	1,638
Radio Systems Corporation	Service - design electronic pet containment products	Senior Term Debt (5.5%, Due 9/2013) (3)	1,966	1,807
Rally Parts, Inc.	Manufacturing - aftermarket motorcycle parts and accessories	Senior Term Debt (5.2%, Due 11/2013) (3)	2,486	2,074
RPG Holdings, Inc.	Manufacturing and design - greeting cards	Senior Term Debt (8.8%, Due 12/2011) (3)	4,553	3,869
SafeNet, Inc.	Service - chip encryption products	Senior Term Debt (7.1%, Due 4/2014) (3)	2,980	2,382
SGS International, Inc.	Service - digital imaging and graphics	Senior Term Debt (6.9%, Due 12/2011) (3)	1,594	1,430
Stolle Machinery Company	Manufacturing - can-making equipment and parts	Senior Term Debt (7.8%, Due 9/2012) (3)	494	458
Survey Sampling, LLC	Service - telecommunications-based sampling	Senior Term Debt (5.2%, Due 5/2011) (3), (5)	2,931	2,527
Synagro Technologies, Inc.	Service - waste treatment and recycling	Senior Term Debt (5.1%, Due 3/2014) (3)	498	422
Triad Laboratory Alliance, LLC	Service - regional medical laboratories	Senior Term Debt (5.9%, Due 12/2011) (3), (5)	4,900	4,154
United Surgical Partners International, Inc.	Service - outpatient surgical provider	Senior Term Debt (5.4%, Due 4/2014) (3)	1,320	1,152
Wastequip, Inc.	Service - process and transport waste materials	Senior Term Debt (4.9%, Due 2/2013) (3)	2,922	2,337
WaveDivision Holdings, LLC	Service - cable	Senior Term Debt (6.7%, Due 6/2014) (3), (5)	1,925	1,814
West Corporation	Service - business process outsourcing	Senior Term Debt (5.3%, Due 10/2013) (3)	3,357	2,929

Subtotal Senior Syndicated Loans			$	154,647	$	131,005
Non-Syndicated Loans						
B-Dry, LLC	Service - basement waterproofer	Revolving Credit Facility, $-0- available (7.3%, Due 10/2008)		750		750
		Senior Term Debt (10.0%, Due 5/2014)		6,749		6,749
		Senior Term Debt (10.0%, Due 5/2014)		3,970		3,970
		Common Stock Warrants (4)		300		265
				11,769		11,734
Total Non-Control/Non-Affiliate Investments			**$**	**166,416**	**$**	**142,739**

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF MARCH 31, 2008

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
CONTROL INVESTMENTS				
A. Stucki Holding Corp.	Manufacturing - railroad freight car products	Senior Term Debt (7.6%, Due 3/2012)	$ 13,391	$ 13,391
		Senior Term Debt (9.8%, Due 3/2012) (6)	11,000	11,000
		Senior Subordinated Term Debt (13%, Due 3/2014)	5,486	5,486
		Preferred Stock (4)	4,387	4,748
		Common Stock (4)	130	10,062
			34,394	44,687
Acme Cryogenics, Inc.	Manufacturing - manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2013)	14,500	14,500
		Redeemable Preferred Stock (4)	6,984	7,795
		Common Stock (4)	1,045	2,977
		Common Stock Warrants (4)	25	291
			22,554	25,563
ASH Holdings Corp.	Retail and Service - school buses and parts	Revolver, $1,250 available (non-accrual, Due 3/2010)	750	
		Senior Subordinated Term Debt (non-accrual, Due 1/2012)	5,250	
		Preferred Stock (4)	2,500	
		Common Stock Warrants (4)	4	
			8,504	
Cavert II Holding Corp.	Manufacturing - bailing wire	Revolving Credit Facility, $600 available (8.0%, Due 10/2010)	2,400	2,400
		Senior Term Debt (8.3%, Due 10/2012)	6,337	6,337
		Senior Term Debt (10.0%, Due 10/2012) (6)	3,000	3,000
		Senior Subordinated Term Debt (13%, Due 10/2014)	4,671	4,671
		Preferred Stock (4)	4,110	4,252
		Common Stock (4)	69	688
			20,587	21,348
Chase II Holdings Corp.	Manufacturing - traffic doors	Revolving Credit Facility, $220 available (7.1%, Due 3/2008)	3,280	3,280
			9,900	9,900

		Senior Term Debt (8.8%, Due 3/2011)				
		Senior Term Debt (12.0%, Due 3/2011) (6)		7,840		7,840
		Senior Subordinated Term Debt (13.0%, Due 3/2013)		6,168		6,168
		Redeemable Preferred Stock (4)		6,961		8,455
		Common Stock (4)		61		3,508
				34,210		39,151
Quench Holdings Corp.	Service - sales, installation and service of water coolers	Revolving Credit Facility, $-0- available (7.1%, Due 3/2009)		1,500		1,500
		Senior Term Debt (7.1%, Due 3/2011)		4,250		4,250
		Senior Subordinated Term Debt (11.5%, Due 3/2011)		7,820		7,820
		Equipment Line Note (7)		1,088		1,088
		Preferred Stock (4)		3,000		
		Common Stock Warrants (4)		447		
				18,105		14,658
Total Control Investments			**$**	**138,354**	**$**	**145,407**

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF MARCH 31, 2008

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company (1)	**Industry**	**Investment (2)**	**Cost**	**Fair Value**
AFFILIATE INVESTMENTS				
Danco Acquisition Corp.	Manufacturing - machining and sheet metal work	Revolving Credit Facility, $2,400 available (9.3%, Due 10/2010)	$ 600	$ 600
		Senior Term Debt (9.3%, Due 10/2012)	5,550	5,550
		Senior Term Debt (11.5%, Due 4/2013)	8,578	8,578
		Redeemable Preferred Stock (4)	2,500	2,576
		Common Stock Warrants (4)	3	1,045
			17,231	18,349
Mathey Investments, Inc.	Manufacturing - pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, $2,000 available (9.0%, Due 3/2011) (8)		
		Senior Term Debt (9.0%, Due 3/2013) (8)	2,500	2,500
		Senior Term Debt (12.0%, Due 3/2014) (8)	7,300	7,300
		Common Stock (4), (8)	500	500
		Common Stock Warrants (4), (8)	277	277
			10,577	10,577
Noble Logistics, Inc.	Service - aftermarket auto parts delivery	Revolving Credit Facility, $100 available (7.1%, Due 12/2009)	1,900	1,900
		Senior Term Debt (8.5%, Due 12/2011)	6,077	6,077
		Senior Term Debt (10.5%, Due 3/2011) (6)	7,000	7,000
		Preferred Stock (4)	1,750	2,108
		Common Stock (4)	1,500	1,447
			18,227	18,532
Total Affiliate Investments			**$ 46,035**	**$ 47,458**
Total Investments			**$ 350,805**	**$ 335,604**

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

(2) Percentage represents the weighted average interest rates in effect at March 31, 2008, and due date represents the contractual maturity date.

(3) Marketable securities, such as syndicated loans, are valued based on the indicative bid price on or near March 31, 2008, offered by the respective syndication agent s trading desk, or secondary desk.

(4) Security is non-income producing.
(5) Fair value based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at March 31, 2008.
(6) Last Out Tranche of senior debt, meaning if the portfolio company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.
(7) Total available for future borrowing for the purposes of purchasing equipment is $1,500. The undrawn amount of $411 may be drawn to purchase additional equipment through 10/31/2010. The interest rate on all amounts drawn on the equipment line note is 12% except for one draw of $188 whose interest rate is 15%. Each draw on the equipment line note is subject to its own amortization and maturity, typically over a period of 20-24 months. At March 31, 2008, the last amortization payment due under current amounts drawn under the equipment line note is 11/2009.
(8) Valued at cost due to recent acquisition.

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	$ 2,339	$ 3,892	$ 6,797	$ 11,220
Control investments	3,068	2,866	8,372	8,043
Affiliate investments	1,478	700	3,938	1,502
Cash and cash equivalents	21	80	67	194
Total interest income	6,906	7,538	19,174	20,959
Other income	96	6	682	41
Total investment income	7,002	7,544	19,856	21,000
EXPENSES				
Loan servicing fee (Refer to Note 4)	1,258	1,287	3,769	3,741
Base management fee (Refer to Note 4)	442	498	1,303	1,310
Administration fee (Refer to Note 4)	195	211	642	647
Interest expense	1,823	2,381	4,009	5,819
Amortization of deferred finance costs	46	169	324	595
Professional fees	69	90	383	356
Stockholder related costs	112	25	413	220
Insurance expense	57	47	165	183
Directors fees	50	55	145	177
Taxes and licenses	16	42	83	125
General and administrative expenses	41	39	163	130
Expenses before credit from Adviser	4,109	4,844	11,399	13,303
Credits to base management fee (Refer to Note 4)	(694)	(1,046)	(1,964)	(1,932)
Total expenses net of credit to base management fee	3,415	3,798	9,435	11,371
NET INVESTMENT INCOME	3,587	3,746	10,421	9,629
REALIZED AND UNREALIZED (LOSS) GAIN ON INVESTMENTS AND DERIVATIVE				
Realized loss on sale of Non-Control/Non-Affiliate investments		(146)	(4,215)	(198)
Net unrealized depreciation of Non-Control/Non-Affiliate investments	(6,988)	(2,835)	(7,714)	(10,672)
Net unrealized appreciation of Control investments	1,755	4,487	7,728	9,942
Net unrealized (depreciation) appreciation of Affiliate investments	(2,294)	(148)	(13,687)	306
Net unrealized appreciation of derivative		5		5
Net (loss) gain on investments	(7,527)	1,363	(17,888)	(617)
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (3,940)	$ 5,109	$ (7,467)	$ 9,012
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:				

Basic and Diluted	$ (0.18)	$ 0.31	$ (0.35)	$ 0.54
SHARES OF COMMON STOCK OUTSTANDING:				
Basic and diluted weighted average shares	22,080,133	16,560,100	21,367,871	16,560,100

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Operations:		
Net investment income	$ 10,421	$ 9,629
Realized loss on sale of investments	(4,215)	(198)
Net unrealized depreciation of portfolio	(13,673)	(424)
Unrealized appreciation of derivative		5
Net (decrease) increase in net assets from operations	(7,467)	9,012
Capital transactions:		
Issuance of common stock	41,290	
Shelf offering registration costs	(695)	(32)
Distributions to stockholders	(15,456)	(11,426)
Increase (decrease) in net assets from capital transactions	25,139	(11,458)
Total increase (decrease) in net assets	17,672	(2,446)
Net Assets		
Beginning of period	206,445	222,819
End of period	$ 224,117	$ 220,373

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended December 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (decrease) increase in net assets resulting from operations	$ (7,467)	$ 9,012
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(47,655)	(157,335)
Principal repayments of investments	26,753	59,723
Proceeds from the sale of investments	13,296	15,697
Net unrealized depreciation of investment portfolio	13,673	424
Net unrealized appreciation of derivative		(5)
Net realized loss on sales of investments	4,215	198
Net amortization of premiums and discounts	27	209
Amortization of deferred finance costs	324	596
Decrease (increase) in interest receivable	46	(660)
Decrease in due from custodian	1,969	9,282
Increase in prepaid insurance	(63)	(255)
Decrease (increase) in other assets	295	(150)
Increase (decrease) in other liabilities	50	(14)
(Decrease) increase in administration fee payable to Administrator (See Note 4)	(13)	49
Increase (decrease) in base management fee payable to Adviser (See Note 4)	137	(244)
Increase in loan servicing fee payable to Adviser (See Note 4)	7	11
Increase in accrued expenses	1	387
Net cash provided by (used in) operating activities	5,595	(63,075)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from the issuance of common stock	40,595	(32)
Borrowings from line of credit	133,000	196,350
Repayments of line of credit	(159,971)	(145,887)
Deferred finance costs		(430)
Distributions paid	(15,456)	(11,426)
Net cash (used in) provided by financing activities	(1,832)	38,575
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,763	(24,500)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,360	37,789
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 13,123	$ 13,289

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED FINANCIAL HIGHLIGHTS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Per Share Data (1)				
Balance at beginning of period	$ 10.57	$ 13.24	$ 12.47	$ 13.46
Income from investment operations:				
Net investment income (2)	0.16	0.23	0.49	0.58
Realized loss on sale of investments (2)		(0.01)	(0.20)	(0.01)
Net unrealized (depreciation) appreciation of investments (2)	(0.34)	0.09	(0.64)	(0.03)
Total from investment operations	(0.18)	0.31	(0.35)	0.54
Distributions to stockholders:				
Net investment income	(0.24)	(0.24)	(0.72)	(0.69)
Total distributions (3)	(0.24)	(0.24)	(0.72)	(0.69)
Rights offering costs			(0.03)	
Effect of distribution of stock rights offering after record date (4)			(1.22)	
Net asset value at end of period	$ 10.15	13.31	$ 10.15	$ 13.31
Per share market value at beginning of period	$ 6.81	$ 12.84	$ 9.32	$ 14.87
Per share market value at end of period	$ 4.91	$ 9.81	$ 4.91	$ 9.81
Total return (5)	(19.59)%	(21.93)%	(41.23)%	(30.31)%
Shares outstanding at end of period	22,080,133	16,560,100	22,080,133	16,560,100
Statement of Assets and Liabilities Data:				
Net assets at end of period	$ 224,117	$ 220,373	$ 224,117	$ 220,373
Average net assets (6)	$ 229,256	$ 218,176	$ 232,053	$ 221,453
Senior Securities Data:				
Borrowings under line of credit	$ 117,864	$ 150,463	$ 117,864	$ 150,463
Asset coverage ratio (7) (8)	290%	246%	290%	246%
Asset coverage per unit (8)	$ 2,901	$ 2,465	$ 2,901	$ 2,465
Ratios/Supplemental Data:				
Ratio of expenses to average net assets (9) (10)	7.17%	8.88%	6.55%	8.01%
Ratio of net expenses to average net assets (9) (11)	5.96%	6.96%	5.42%	6.85%
Ratio of net investment income to average net assets (9)	6.26%	6.87%	5.99%	5.80%

(1) Based on actual shares outstanding at the end of the corresponding period.
(2) Based on weighted average basic per share data.

(3) Distributions are determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under accounting principles generally accepted in the United States of America.

(4) The effect of distributions from the stock rights offering after the record date represents the effect on net asset value of issuing additional shares after the record date of a distribution.

(5) Total return equals the change in the market value of the Company s common stock from the beginning of the period taking into account distributions reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on estimated character of our distributions, please refer to Note 9.

(6) Calculated using the average of the ending monthly net assets for the respective periods.

(7) As a business development company, the Company is generally required to maintain a ratio of at least 200% of total assets to total borrowings.

(8) Asset coverage ratio is the ratio of the carrying value of the Company s total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per $1,000 of indebtedness.

(9) Amounts are annualized.

(10) Ratio of expenses to average net assets is computed using expenses before credit from the Adviser.

(11) Ratio of net expenses to average net assets is computed using total expenses net of credits to the management fee.

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

GLADSTONE INVESTMENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

DECEMBER 31, 2008

(UNAUDITED)

NOTE 1. ORGANIZATION

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended March 31, 2008, as filed with the Securities and Exchange Commission (SEC) on May 21, 2008.

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

Reclassifications

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

Investment Valuation Policy

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

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

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

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

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

In the event these limited markets become illiquid such that market prices are no longer readily available, the Company will value its syndicated loans using estimated net present values of the future cash flows or discounted cash flows (DCF). The use of a DCF methodology follows that prescribed by FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP No. 157-3), which provides guidance on the use of a reporting entity s own assumptions about future cash flows and risk-adjusted discount rates when relevant observable inputs, such as quotes in active markets, are not available. When relevant observable market data does not exist, the alternative outlined in the FSP No. 157-3 is the use of valuing investments based on DCF. For the purposes of using DCF to provide fair value estimates, the Company considered multiple inputs such as a risk-adjusted discount rate that incorporates adjustments that market participants would make both for nonperformance and liquidity risks. As such, the Company developed a modified discount rate approach that incorporates risk premiums including, among others, increased probability of default, or higher loss given default, or increased liquidity risk.

The DCF valuations applied to the syndicated loans provide an estimate of what the Company believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Company will continue to apply the DCF methodology in illiquid markets until quoted prices based on trading activity are deemed reliable.

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

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

(2) Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities: The Company values Non-Public Debt Securities and equity or equity-like securities (e.g. preferred equity, equity, or other equity-like securities) that are purchased together as part of a package, where we have control or could gain control through an option or warrant security, both the debt and equity securities of the portfolio investment would exit in the mergers and acquisition market as the principal market, generally through a sale or recapitalization of the portfolio company.

(3) Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and/or equity securities: The Company values Non-Public Debt Securities and equity or equity-like securities that are purchased together from the same non-controlled portfolio company, or issuer, by valuing the debt portion with SPSE (as described above) and valuing the equity portion based principally on the total enterprise value of the issuer, which is calculated using a liquidity waterfall approach.

Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the securities existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that the Company might reasonably expect to receive upon the current sale of the security in an arms-length transaction in the security s principal market.

Interest and Dividend Income Recognition

Interest income, adjusted for amortization of premiums and acquisition costs and for the accretion of discounts, is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible. At December 31, 2008, one Non-Control/Non-Affiliate investment was on non-accrual with a cost basis of approximately $4.6 million and one Control investment was on non-accrual with a cost basis of approximately $6.9 million, or an aggregate of 3.7% of the cost basis of all loans in our portfolio. At March 31, 2008, one Non-Control/Non-Affiliate investment was on non-accrual with a cost basis of approximately $2.9 million and one Control investment was on non-accrual with a cost basis of approximately $6.0 million, or an aggregate of 2.8% of the cost basis of all loans in our portfolio. Conditional interest, or a success fee, is recorded upon full repayment of a loan investment. To date, the Company has not recorded any conditional interest. Dividend income on preferred equity securities is accrued to the extent that such amounts are expected to be collected and that the Company has the option to collect such amounts in cash. To date, the Company has not accrued any dividend income.

Services Provided to Portfolio Companies

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

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

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

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

Recent Accounting Pronouncements

In October 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3).* FSP 157-3 clarifies the application of SFAS 157 (defined below) in a market that is not active. More specifically, FSP 157-3 states that significant judgment should be applied to determine if observable data in a dislocated market represents forced liquidations or distressed sales and are not representative of fair value in an orderly transaction. FSP 157-3 also provides further guidance that the use of a reporting entity s own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available. In addition, FSP 157-3 provides guidance on the level of reliance of broker quotes or pricing services when measuring fair value in a non active market stating that less reliance should be placed on a quote that does not reflect actual market transactions and a quote that is not a binding offer. The guidance in FSP 157-3 is effective upon issuance for all financial statements that have not been issued and any changes in valuation techniques as a result of applying FSP 157-3 are accounted for as a change in accounting estimate. The Company adopted this pronouncement during the quarter ended December 31, 2008.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161), which is intended to help investors better understand how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows through enhanced disclosure requirements. The enhanced disclosures include disclosing the objectives and strategies for using derivative instruments by their underlying risk as well as a tabular format of the fair values of the derivative instruments and their gains and losses. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not believe the adoption of this pronouncement will have a material impact on the reporting of its derivatives.

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

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fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

NOTE 3. INVESTMENTS

In September 2006, the FASB issued *Statement of Financial Accounting Standards No. 157 Fair Value Measurements* (SFAS 157), which, for financial assets, is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Company adopted SFAS 157 on April 1, 2008. In part, SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. The new standard provides a consistent definition of fair value that focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. The standard also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

- *Level 1* inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

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

- *Level 3* inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect the Company s own assumptions that market participants would use to price the asset or liability based upon the best available information.

At December 31, 2008, all of the Company s assets were valued using Level 3 inputs.

The following table presents the financial instruments carried at fair value as of December 31, 2008, by caption on the accompanying condensed consolidated statements of assets and liabilities for each of the three levels of hierarchy established by SFAS 157:

	As of December 31, 2008			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value Reported in Condensed Consolidated Statement of Assets and Liabilities**
Non-Control/Non-Affiliate investments	$	$	$ 107,208	$ 107,208

Control investments				167,175		167,175
Affiliate investments				50,912		50,912
Total investments at fair value	$	$	$	325,295	$	325,295

Changes in Level 3 Fair Value Measurements

The following table provides a roll-forward in the changes in fair value during the nine-month period from March 31, 2008 to December 31, 2008, and for the three-month period from September 30, 2008 through December 31, 2008 for all investments for which the Company determines fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources). Accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

Fair value measurements using unobservable data inputs (Level 3)

	Non-Control/Non-Affiliate Investments	Control Investments	Affiliate Investments	Total
Nine months ended December 31, 2008:				
Fair value at March 31, 2008	$ 142,739	$ 145,407	$ 47,458	$ 335,604
Total realized/unrealized (losses) gains (a)	(11,929)	7,728	(13,687)	(17,888)
New investments, repayments, and settlements, net	(23,602)	14,040	17,141	7,579
Transfers in (out) of Level 3				
Fair value as of December 31, 2008	$ 107,208	$ 167,175	$ 50,912	$ 325,295
Three months ended December 31, 2008:				
Fair value at September 30, 2008	$ 115,133	$ 157,246	$ 53,877	$ 326,256
Total realized/unrealized (losses) gains (a)	(6,988)	1,755	(2,294)	(7,527)
New investments, repayments, and settlements, net	(937)	8,174	(671)	6,566
Transfers in (out) of Level 3				
Fair value as of December 31, 2008	$ 107,208	$ 167,175	$ 50,912	$ 325,295

(a) Realized/unrealized gains and losses are reported on the accompanying condensed consolidated statements of operations for the three and nine months ended December 31, 2008.

Non-Control and Non-Affiliate Investments

At December 31, 2008 and March 31, 2008, the Company held investments in Non-Control/Non-Affiliates of approximately $107.2 million and $142.7 million, at fair value, respectively. These investments were comprised primarily of syndicated loan participations of senior notes of private companies and also non-syndicated loan investments where the Company does not have a significant ownership interest in the portfolio company. Included in Non-Control/Non-Affiliate investments, at both December 31, 2008 and March 31, 2008, the Company also held common stock warrants of one Non-Control/Non-Affiliate company, which carried fair values of $-0- and $265, respectively. At December 31, 2008 and March 31, 2008, the Company s investments, at fair value, in Non-Control/Non-Affiliates represented approximately 48% and 69%, respectively, of the Company s net assets.

Control and Affiliate Investments

At December 31, 2008 and March 31, 2008, the Company had investments in Control and Affiliates, at fair value, of approximately $156.5 million and $142.2 million, respectively, in revolving credit facilities, senior debt and subordinated debt. In addition, at December 31, 2008 and

March 31, 2008, the Company held, at fair value, approximately $61.6 million and $50.7 million, respectively, in preferred and common equity of those companies.

At December 31, 2008 and March 31, 2008, the Company s investments in Control investments, at fair value, represented approximately 75% and 70%, respectively, of the Company s net assets. Also, at both December 31, 2008 and March 31, 2008, the Company s investments in Affiliate investments, at fair value, represented approximately 23% of the Company s net assets.

Investment Activity

On May 19, 2008, the Company invested approximately $5.75 million in Tread Corporation (Tread) and its subsidiaries. The investment was comprised of approximately $750 in preferred stock, $5.0 million of senior second lien debt notes and a nominal amount in convertible common stock warrants. Tread, based in Roanoke, VA, was founded in 1957 and manufactures products that store, transport and mix the primary ingredients for liquid explosives, which are ammonium nitrate and fuel oil.

On August 22, 2008, the Company invested approximately $21.4 million in Galaxy Tool Holding Corporation (Galaxy) and its subsidiaries. The investment was comprised of approximately $4.1 million and $48 in preferred stock and common stock, respectively, and $17.25 million in a senior second lien debt note. Galaxy, based in Winfield, KS, was founded in 1985 and is a manufacturer of specialized tooling for the aerospace industry, as well as blow and injection molds for the plastics industry.

On August 29, 2008, the Company restructured its investment with Quench USA, LLC (Quench), reaching a settlement on the revolving credit facility and the Term A senior subordinated debt, and increasing the Term B senior subordinated debt to $8.0 million. In the restructuring, approximately $617 of distributions were received, $567 of which were recorded as ordinary income. The remaining $50 reduced the Company s basis in Quench. Furthermore, due to a decrease in the Company s ownership percentage in the investment, Quench has been reclassified in these financial statements as an Affiliate investment, along with all unrealized gains and losses and interest income associated with the investment since the date of the restructuring.

On September 11, 2008, the Company invested approximately $3.1 million in A. Stucki (Stucki) in the form of additional debt to the existing senior subordinated term debt for Stucki s acquisition of the assets of Alco Spring Industries, Inc. (Alco). Alco, located in Chicago, IL, is one of the last independent manufacturers of hot wound springs for the transportation and heavy equipment industries. This investment carries the same terms as the original senior subordinated term debt facility. The Company s equity securities and ownership did not change as a result of this transaction.

On November 10, 2008, the Company invested approximately $10.7 million in Country Club Enterprises, LLC (CCE), comprised of approximately $3.7 million in preferred stock and $7.0 million in subordinated term debt. CCE, headquartered in Wareham, MA, was founded in 1975 and is one of the largest distributors of golf carts in the United States.

In October 2008, the Company executed a guaranty of a vehicle finance facility agreement between Ford Motor Credit Company (FMC) and Auto Safety House, LLC (ASH), one of the Company s control investments (the Finance Facility). The Finance Facility provides ASH with a line of credit of up to $500,000 for component Ford parts used by ASH to build truck bodies under a separate contract. Title and ownership of the parts is retained by Ford. The guaranty of the Finance Facility will expire upon termination of the separate parts supply contract with Ford or upon replacement of the Company as guarantor. The Finance Facility is secured by the assets of the Company. As of December 31, 2008, the Company has not been required to make any payments on the guaranty of the Finance Facility.

Investment Concentrations

Approximately 61.6% of the aggregate fair value of the Company s investment portfolio at December 31, 2008 consisted of senior term debt, approximately 19.5% was senior subordinated term debt and approximately 18.9% was preferred and common equity securities. At December 31, 2008, the Company had an aggregate of approximately $354.2 million, at cost, invested in 47 portfolio companies. The following table outlines the Company s investments by type at December 31, 2008 and March 31, 2008:

	December 31, 2008		March 31, 2008	
	Cost	Fair Value	Cost	Fair Value
Senior Term Debt	$ 237,423	$ 200,357	$ 269,270	$ 244,878
Senior Subordinated Term Debt	71,424	63,374	43,894	38,644
Subordinated Term Debt			1,089	1,089
Preferred & Common Equity Securities	45,322	61,564	36,552	50,993
Total Investments	**$ 354,169**	**$ 325,295**	**$ 350,805**	**$ 335,604**

Investments at fair value consisted of the following industry classifications at December 31, 2008 and March 31, 2008:

	December 31, 2008			March 31, 2008		
		Percentage of			Percentage of	
	Fair Value	Total Investments	Net Assets	Fair Value	Total Investments	Net Assets
Aerospace and Defense	$ 21,972	6.8%	9.8%	$	0.0%	0.0%
Automobile	12,494	3.8%	5.6%	2,074	0.6%	1.0%
Beverage, Food and Tobacco	1,367	0.4%	0.6%	3,454	1.0%	1.7%
Broadcasting and Entertainment	2,817	0.9%	1.3%	3,499	1.1%	1.7%
Buildings and Real Estate	10,681	3.3%	4.8%	11,734	3.5%	5.7%
Cargo Transport	14,142	4.3%	6.3%	20,869	6.2%	10.1%
Chemicals, Plastics and Rubber	22,057	6.8%	9.8%	25,563	7.6%	12.4%
Containers, Packaging and Glass	23,498	7.2%	10.5%	26,286	7.8%	12.7%
Diversified/Conglomerate Manufacturing	59,410	18.3%	26.5%	57,500	17.1%	27.9%
Diversified/Conglomerate Service	27,804	8.6%	12.4%	30,742	9.2%	14.9%
Ecological		0.0%	0.0%	422	0.1%	0.2%
Electronics	7,545	2.3%	3.4%	10,689	3.2%	5.2%
Healthcare, Education and Childcare	34,866	10.7%	15.6%	37,238	11.1%	18.0%
Home and Office Furnishings		0.0%	0.0%	14,658	4.4%	7.1%
Machinery	64,097	19.7%	28.6%	66,439	19.8%	32.2%
Oil and Gas	5,622	1.7%	2.5%		0.0%	0.0%
Personal, Food and Miscellaneous Services	4,011	1.2%	1.8%	6,936	2.1%	3.4%
Printing and Publishing	3,274	1.0%	1.5%	5,299	1.6%	2.6%
Telecommunications	9,638	3.0%	4.3%	12,202	3.6%	5.9%
Total Investments	**$ 325,295**	**100.0%**		**$ 335,604**	**100.0%**	

The investments at fair value were included in the following geographic regions of the United States and Canada at December 31, 2008 and March 31, 2008:

	December 31, 2008			March 31, 2008		
		Percentage of			Percentage of	
	Fair Value	Total Investments	Net Assets	Fair Value	Total Investments	Net Assets
Mid-Atlantic	$ 121,460	37.4%	54.2%	$ 131,883	39.3%	63.9%
Midwest	110,220	33.9%	49.2%	106,811	31.8%	51.7%
Northeast	18,968	5.8%	8.5%	10,718	3.2%	5.2%
Southeast	44,677	13.7%	19.9%	49,780	14.8%	24.1%
West	29,970	9.2%	13.4%	36,412	10.9%	17.6%
Total Investments	**$ 325,295**	**100.0%**		**$ 335,604**	**100.0%**	

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

Investment Principal Repayments

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

		Amount
For the remaining three months ending March 31:	2009	$ 5,499
For the fiscal year ending March 31:	2010	14,057
	2011	33,537
	2012	78,579
	2013	27,341
	2014	98,545
	Thereafter	51,239
	Total contractual repayments	**$ 308,797**
	Investments in equity securities	45,322
	Unamortized premiums on debt securities	50
	Total	**$ 354,169**

NOTE 4. RELATED PARTY TRANSACTIONS

Investment Advisory and Management Agreement

The Company has entered into an investment advisory and management agreement with the Adviser (the Advisory Agreement), which is controlled by the Company s chairman and chief executive officer. In accordance with the Advisory Agreement, the Company pays the Adviser fees as compensation for its services, consisting of a base management fee and an incentive fee.

Through December 31, 2006, the base management fee was computed and payable quarterly and was assessed at an annual rate of 2.0% computed on the basis of the average value of the Company s gross invested assets at the end of the two most recently completed quarters, which were total assets less the cash proceeds and cash and cash equivalents from the proceeds of the Company s initial public offering that were not invested in debt and equity securities of portfolio companies. Beginning on January 1, 2007, the base management fee was computed and payable quarterly and was assessed at an annual rate of 2.0% computed on the basis of the value of the Company s average gross assets at the end of the two most recently completed quarters, which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings.

The Company s Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations, for the quarters and nine months ended December 31, 2008 and 2007.

On July 9, 2008, the Company s Board of Directors approved the renewal of its Advisory Agreement with the Adviser through August 31, 2009.

When the Adviser receives fees from portfolio companies, as discussed in Note 2 under Services Provided to Portfolio Companies, 50% of certain of these fees are credited against the base management fee that the Company would otherwise be required to pay to the Adviser.

The following tables summarize the management fees and associated credits reflected in the accompanying consolidated statements of operations:

	Three months ended		Nine months ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Base management fee	$ 442	$ 498	$ 1,303	$ 1,310
Credits to base management fee from Adviser:				
Credit for fees received by Adviser from the portfolio companies	(281)	(536)	(744)	(688)
Fee reduction for the voluntary, irrevocable waiver of 2% fee on senior syndicated loans to 0.5% per annum	(413)	(510)	(1,220)	(1,244)
Credit to base management fee from Adviser	(694)	(1,046)	(1,964)	(1,932)
Net base management fee	**$ (252)**	**$ (548)**	**$ (661)**	**$ (622)**

At December 31, 2008, a resulting base management fee credit of $252 was unpaid and is included as a reduction in the Fee due to Adviser line item in the accompanying condensed consolidated statements of assets and liabilities. The Fee due to Adviser of $55 also includes loan servicing fees of $302, as discussed below, paid by the Adviser on behalf of the Company. At March 31, 2008, a base management fee credit of $384 was unpaid and included in Fee due to Adviser in the accompanying condensed consolidated statements of assets and liabilities. The amount due from Adviser of $89 also includes loan servicing fees of $295.

In addition, the Adviser services the loans held by Business Investment, in return for which the Adviser receives a 2.0% annual fee based on the monthly aggregate balance of loans held by Business Investment. Since the Company owns these loans, all loan servicing fees paid to the Adviser are treated as reductions against the 2.0% base management fee payable to the Adviser. Overall, the base management fee due to the Adviser cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year.

For the three and nine months ended December 31, 2008, the Company recorded loan servicing fees due to the Adviser of $1,258 and $3,769, respectively. At December 31, 2008, the Company owed $302 of unpaid loan servicing fees to the Adviser, which are netted and recorded in Fee due to Adviser. At March 31, 2008, there were $295 of loan servicing fees due to the Adviser that were included as a credit in Fee due from Adviser in the accompanying consolidated statements of assets and liabilities, offsetting the base management fee credit due to the Company from the Adviser at that date.

The incentive fee consists of two parts: an income-based incentive fee and a capital gains incentive fee. The income-based incentive fee rewards the Adviser if the Company s quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the hurdle rate). The Company will pay the Adviser an income incentive fee with respect to the Company s pre-incentive fee net investment income in each calendar quarter as follows:

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

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

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

The second part of the incentive fee is a capital gains incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date), and equals 20% of the Company s realized capital gains as of the end of the fiscal year. In determining the capital gains incentive fee payable to the Adviser, the Company will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since the Company s inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in the Company s portfolio. For this purpose, cumulative aggregate realized capital gains, if any, equals the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since our inception. Aggregate unrealized capital depreciation equals the sum of the difference, if negative, between the valuation of each investment as of the applicable calculation date and the original cost of such investment. At the end of the applicable year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to the Company s portfolio of investments. If this number is positive at the end of such year, then the capital gains incentive fee for such year equals 20% of such amount, less the aggregate amount of any capital gains incentive fees paid in respect of our portfolio in all prior years.

Because pre-incentive fee net investment income was below the hurdle rate of 1.75% of net assets, no income-based incentive fee was recorded for the three months ended December 31, 2008 or 2007. No capital gains incentive fee was recorded for the three months ended December 31, 2008 or 2007, as cumulative unrealized capital depreciation exceeded cumulative realized capital gains net of cumulative realized capital losses.

Administration Agreement

The Company has entered into an administration agreement (the Administration Agreement) with Gladstone Administration, LLC (the Administrator), a wholly-owned subsidiary of the Adviser whereby it pays separately for administrative services. The Administration Agreement provides for payments equal to the Company s allocable portion of its Administrator s overhead expenses in performing its obligations under the Administration Agreement including, but not limited to, rent for employees of the Administrator, and its allocable portion of the salaries and benefits expenses of the Company s chief financial officer, chief compliance officer, treasurer and their respective staffs. The Company s allocable portion of expenses is derived by multiplying the Administrator s total allocable expenses by the percentage of the Company s average total assets (the total assets at the beginning and end of each quarter) in comparison to the average total assets of all companies managed by the Adviser under similar agreements.

The Company recorded fees to the Administrator on the consolidated statements of operations of $195 and $642 for the three and nine months ended December 31, 2008, respectively, as compared to administration fees of $211 and $647, respectively, for the three and nine months ended December 31, 2007. As of December 31, 2008 and March 31, 2008, $195 and $208, respectively, was unpaid and included in Fee due to Administrator in the accompanying consolidated statements of assets and liabilities.

On July 9, 2008, the Company s Board of Directors approved the renewal of its Administration Agreement with the Administrator through August 31, 2009.

License Agreement

The Company has entered into a license agreement with the Adviser, pursuant to which the Adviser has granted the Company a non-exclusive license to use the name Gladstone and the Diamond G trademark. This license agreement required us to pay the Adviser a royalty fee of ten dollars per quarter through March 31, 2009. The amount of the fee is negotiated on an annual basis by the Company s compensation committee and must be approved by a majority of the Company s independent directors. The fee was increased to ten dollars per quarter effective as of April 1, 2008 and, as a result of the last negotiation, will remain at ten dollars for the next contract term which begins on April 1, 2009. The license arrangement will terminate in the event that Gladstone Management Corporation is no longer the Company s investment adviser.

NOTE 5. LINE OF CREDIT

Through its wholly-owned subsidiary, Business Investment, the Company initially obtained a $100 million revolving credit facility, (the Credit Facility). On October 19, 2006, the Company executed a purchase and sale agreement pursuant to which the Company agreed to sell certain loans to Business Investment in consideration for a membership interest therein. Simultaneously, Business Investment executed a credit agreement, the Credit Agreement with Deutsche Bank AG, New York Branch, as administrative agent, and others, pursuant to which Business Investment pledged the loans purchased from the Company to secure future advances by certain institutional lenders. Availability under the Credit Facility was subsequently amended and extended such that the borrowing capacity was raised to $200 million.

On October 16, 2008, the Credit Facility was further amended and extended such that the borrowing capacity was reduced to $125 million and availability under the Credit Facility was extended to April 16, 2009. Any advances under the Credit Facility will generally bear interest at the commercial paper rate plus 3.5% per annum, with a commitment fee of 0.75% per annum on the undrawn amounts. There was no fee in connection with this renewal.

As of January 6, 2009, there was an outstanding principal balance of $115.9 million under the Credit Facility at an interest rate of 2.4%, plus an additional fee related to borrowings of 3.5%, for an aggregate rate of approximately 5.9%. Available borrowings are subject to various constraints imposed under the Credit Agreement, based on the aggregate loan balance pledged by Business Investment, which varies as loans are added and repaid, regardless of whether such repayments are early prepayment or are made as contractually required. At January 6, 2009, the remaining borrowing capacity available under the Credit Facility was approximately $9.1 million.

The Credit Facility contains covenants that require Business Investment to maintain its status as a separate entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions); and restrict material changes to our credit and collection policies. The facility also restricts some of the terms and provisions (including interest rates, terms to maturity and payments schedules) and limits the borrower and industry concentrations of loans that are eligible to secure advances. As of December 31, 2008, Business Investment was in compliance with all of the facility covenants.

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

The Adviser services the loans pledged under the Credit Facility. As a condition to this servicing arrangement, the Company executed a performance guaranty pursuant to which we guaranteed that the Adviser would comply fully with all of its obligations under the Credit Facility. The performance guaranty requires the Company to maintain a minimum net worth of $100 million and to maintain asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act. As of December 31, 2008, the Company was in compliance with its covenants under the performance guaranty. However, continued compliance with these covenants depends on many factors, some of which are beyond the Company s control. In particular, depreciation in the valuation of the Company s assets, which valuation is subject to changing market conditions which are presently very volatile, affects the Company s ability to comply with these covenants.

Availability under the Credit Facility will terminate on April 16, 2009. If the Credit Facility is not renewed or extended by this date, all principal and outstanding interest will be immediately due and payable.

NOTE 6. INTEREST RATE CAP AGREEMENT

In October 2007, the Company entered into an interest rate cap agreement that will effectively limit the interest rate on a portion of the borrowings under the line of credit pursuant to the terms of the Credit Facility. The interest rate cap has a notional amount of $60 million at a cost of $53. The Company records changes in the fair market value of the interest rate cap agreement monthly based on the current market valuation at month end as unrealized depreciation or appreciation on derivative on the Company s consolidated statement of operations. The interest rate cap agreement expires in October 2009. The agreement provides that the Company s floating interest rate or cost of funds on a portion of the portfolio s borrowings will be capped at 9% when the LIBOR rate is in excess of 9%. At December 31, 2008, the interest rate cap agreement had a nominal fair market value.

The use of a cap involves risks that are different from those associated with ordinary portfolio securities transactions. Cap agreements may be considered to be illiquid. Although the Company will not enter into any such agreements unless it believes that the other party to the transaction is creditworthy, the Company does bear the risk of loss of the amount expected to be received under such agreements in the event of default or bankruptcy of the agreement counterparty.

NOTE 7. COMMON STOCK

	Shares		Total Value
Balance at March 31, 2008	16,560,100	$	224,189
Issuance of common stock under rights offering	5,520,033		40,595
Balance at December 31, 2008	22,080,133	$	264,784

In April 2008, the Company completed an offering of transferable subscription rights to purchase additional shares of common stock (the Rights Offering). Pursuant to the Rights Offering, the Company sold 5,520,033 shares of its common stock at a subscription price of $7.48, which represented a purchase price equal to 93% of the weighted average closing price of the Company s stock in the last five trading days of the subscription period. Net proceeds of the offering, after offering expenses borne by the Company, were approximately $40.6 million and were used to repay a portion of outstanding borrowings under the Company s line of credit.

NOTE 8. NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE

The following table sets forth the computation of basic and diluted net increase (decrease) in net assets per common share resulting from operations:

	Three months ended December 31, 2008	Three months ended December 31, 2007	Nine months ended December 31, 2008	Nine months ended December 31, 2007
Numerator for basic and diluted net (decrease) increase in net assets resulting from operations per share	$ (3,940)	$ 5,109	$ (7,467)	$ 9,012
Denominator for basic and diluted shares	22,080,133	16,560,100	21,367,871	16,560,100
Basic and diluted net (decrease) increase in net assets resulting from operations per share	$ (0.18)	$ 0.31	$ (0.35)	$ 0.54

NOTE 9. DISTRIBUTIONS

The following table lists the per common share distributions paid for the nine months ended December 31, 2008 and 2007:

Fiscal Year 2009

Record Date	Payment Date		Distribution Per Share
April 22, 2008	April 30, 2008	$	0.08
May 21 2008	May 30, 2008		0.08
June 20, 2008	June 30 2008		0.08
July 23, 2008	July 31, 2008		0.08
August 21, 2008	August 29, 2008		0.08
September 22, 2008	September 30, 2008		0.08
October 23, 2008	October 31, 2008		0.08
November 19, 2008	November 28, 2008		0.08
December 22, 2008	December 31, 2008		0.08
	Total	**$**	**0.72**

Fiscal Year 2008

Record Date	Payment Date		Distribution Per Share
April 20, 2007	April 30, 2007	$	0.075
May 22, 2007	May 31, 2007		0.075
June 21, 2007	June 29, 2007		0.075
July 23, 2007	July 31, 2007		0.075
August 23, 2007	August 31, 2007		0.075
September 20, 2007	September 28, 2007		0.075
October 23, 2007	October 31, 2007		0.08
November 21, 2007	November 30, 2007		0.08
December 20, 2007	December 31, 2007		0.08
	Total	**$**	**0.69**

Aggregate distributions declared and paid for the three months ended December 31, 2008 and 2007 were approximately $5.3 million and $4.0 million, respectively. Aggregate distributions declared and paid for the nine months ended December 31, 2008 and 2007 were approximately $15.5 million and $11.4 million, respectively. All distributions were declared based on estimates of net investment income for the respective fiscal years, and some of the distributions included a return of capital.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from GAAP. These differences primarily relate to items recognized as income for financial statement purposes and realized gains for tax purposes. As a result, net investment income and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Company may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Company.

Section 19(a) Disclosure

The Company s Board of Directors estimates the source of the distributions at the time of their declaration as required by Section 19(a) of the 1940 Act. On a monthly basis, if required under Section 19(a), the Company posts a Section 19(a) notice through the Depository Trust Company s Legal Notice System (LENS) and also sends to its registered stockholders a written Section 19(a) notice along with the payment of distributions for any payment which includes a distribution estimated to be paid from any other source other than net investment income. The estimates of the source of the distribution are interim estimates based on GAAP that are subject to revision, and the exact character of the distributions for tax purposes cannot be determined until the final books and records of the Company are finalized for the calendar year. Following the calendar year end, after definitive information has been determined by the Company, if the Company has made distributions of taxable income (or return of capital), the Company will deliver a Form 1099-DIV to its stockholders specifying such amount and the tax characterization of such amount. Therefore, these estimates are made solely in order to comply with the requirements of Section 19(a) of the 1940 Act and should not be relied upon for tax reporting or any other purposes and could differ significantly from the actual character of distributions for tax purposes.

The following GAAP estimates were made by the Board of Directors during the quarter ended December 31, 2008:

Month Ended	**Ordinary Income**	**Return of Capital**	**Total Distributions**
December 31, 2008	$ 0.068	$ 0.012	$ 0.08
November 30, 2008	0.051	0.029	0.08
October 31, 2008	0.047	0.033	0.08

Because the Board of Directors declares distributions at the beginning of a quarter, it is difficult to estimate how much of the Company s monthly distributions, based on GAAP, will come from ordinary income, capital gains, and returns of capital. Subsequent to the quarter ended December 31, 2008, the following corrections were made to the above listed estimates for that quarter:

Month Ended	**Ordinary Income**	**Return of Capital**	**Total Distributions**
December 31, 2008	$ 0.061	$ 0.019	$ 0.08
November 30, 2008	0.054	0.026	0.08
October 31, 2008	0.047	0.033	0.08

For distributions declared subsequent to quarter end, the following estimates, based on GAAP, have been made pursuant to Section 19(a) of the 1940 Act:

Month Ended	**Ordinary Income**	**Return of Capital**	**Total Distributions**
January 31, 2009	$ 0.054	$ 0.026	$ 0.08
February 28, 2009	0.054	0.026	0.08
March 31, 2009	0.088	(0.008)	0.08

NOTE 10. CONTRACTUAL OBLIGATIONS

At December 31, 2008, the Company was not a party to any signed investments to be funded.

NOTE 11. SUBSEQUENT EVENTS

On January 13, 2009, the Company s Board of Directors declared the following monthly cash distributions:

Record Date	Payment Date		Distribution Per Share
January 22, 2009	January 30, 2009	$	0.08
February 19, 2009	February 27, 2009		0.08
March 23, 2009	March 31, 2009		0.08