

# Gladstone Investment Corporation Reports Financial Results for the First Quarter Ended June 30, 2009

\* Net Investment Income was \$2.4 million, or \$0.11 per common share

\* Net Decrease in Net Assets Resulting from Operations was \$9.2 million, or \$0.42 per common share

MCLEAN, Va., Aug. 4, 2009 (GLOBE NEWSWIRE) -- Gladstone Investment Corp. (Nasdaq:GAIN) (the "Company") today announced earnings for the first quarter ended June 30, 2009. All per share references are per basic and diluted weighted average common share outstanding, unless otherwise noted.

Net Investment Income for the quarter ended June 30, 2009 was \$2.4 million, or \$0.11 per common share, as compared to \$3.1 million, or \$0.15 per common share, for the quarter ended June 30, 2008, a decrease in Net Investment Income of 22.6% and a decrease of 26.7% per common share. The decrease in Net Investment Income was primarily driven by a reduction in the size of the Company's investment portfolio as a result of the sale of 29 of its 32 senior syndicated loans during the quarter ended June 30, 2009 offset by decreased interest expense based on lower outstanding borrowings from the prior year period. The per share results were also adversely impacted by the issuance of additional shares in a public offering during the three months ended June 30, 2008.

Net Decrease in Net Assets Resulting from Operations for the quarter ended June 30, 2009 was \$9.2 million, or \$0.42 per common share, as compared to a decrease of \$4.5 million, or \$0.22 per common share, for the quarter ended June 30, 2008, a decrease in Net Assets Resulting from Operations of \$4.7 million, or \$0.20 per common share. During the quarter ended June 30, 2009, the Company sold 29 senior syndicated loans for aggregate net proceeds of approximately \$69.2 million in cash and recorded a corresponding realized loss of approximately \$34.6 million. The realization of these losses also resulted in the reversal of \$34.4 million of previously recorded unrealized depreciation related to the senior syndicated loans that were sold. The Company also experienced a devaluation in its Control and Affiliate investments, which depreciated by approximately \$13.7 million in aggregate, primarily in the equity holdings of certain Control investments. The total net loss on investments for the quarter ended June 30, 2009, including all realized and unrealized gains and losses, was approximately \$11.6 million, as compared to \$7.5 million in the prior year quarter.

Although the aggregate investment portfolio has depreciated, the entire portfolio was fair valued at approximately 95.0% of cost as of June 30, 2009. The unrealized depreciation of the Company's investments does not have an impact on its current ability to pay distributions to stockholders, although it may be an indication of future realized losses, which could ultimately reduce the Company's income available for distribution.

Total assets were \$315.8 million at June 30, 2009, as compared to \$326.8 million at March 31, 2009. Net asset value was \$9.19 per actual common share outstanding at June 30, 2009, as compared to \$9.73 per actual common share outstanding at March 31, 2009.

The annualized weighted average yield on the Company's portfolio, excluding cash and cash equivalents, was 9.84% for the quarter ended June 30, 2009, as compared to 7.79% in the prior year quarter. 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. The increase in the weighted average yield for the current quarter results primarily from the Company's sale of lower interest-bearing senior syndicated loans. The effect of continuing reductions in LIBOR has been mitigated by the presence of a rate floor or fixed rate on most of the remaining loans held in the Company's portfolio as of June 30, 2009.

During the first quarter ended June 30, 2009, the Company recorded the following significant activity:

- \* Sold 29 of its 32 senior syndicated loans for aggregate net proceeds of approximately \$69.2 million in cash and recorded a corresponding realized loss of approximately \$34.6 million;
- \* Repaid in full the Company's previous credit facility with Deutsche Bank, A.G. and entered into a new credit facility with Branch Bank and Trust Company and Key Equipment Finance, Inc. for a \$50.0 million line of credit, which matures on April 14, 2010, with a one year amortization period;
- \* Entered into the following portfolio company transactions:
  - Refinanced a portion of its senior term loan to A. Stucki Holding Corp. by receiving approximately \$2.0 million of principal repayments, representing the next three quarterly payments due under normal amortization on both their senior term A (\$1.6 million) and senior term B (\$412,000) loans;
  - Received a repayment from Auto Safety House of approximately \$1.1 million on their revolving line of credit, which reduced the outstanding balance to \$500,000;
  - Reduced the available credit limit on Mathey Investment, Inc.'s revolving line of credit from \$2.0 million to \$1.0 million in a non-cash transaction;
  - Disbursed approximately \$850,000 to Cavert II Holding Corp. on their revolving line of credit, the proceeds of which were used to make the next four quarterly payments due under normal amortization for both their senior term A and senior term B loans in a non-cash transaction. Cavert subsequently repaid all outstanding principal and accrued interest on the revolving line of credit and the Company sold the investment to a third party for a nominal fee;
  - Reduced the available credit limit on Chase II Holdings Corp.'s revolving line of credit from \$4.5 million to \$3.5 million in a non-cash transaction;
- \* Purchased \$83.0 million of short-term United States Treasury securities (the "Securities") from Jefferies & Company, Inc. ("Jefferies") with \$18.0 million in funds drawn on the Company's credit facility and the proceeds from a \$65.0 million short-term loan from Jefferies, with an effective annual interest rate of approximately 2.5%, that matured on July 2, 2009 (the "Short-Term Loan"); and
- \* Paid monthly distributions of \$0.04 per share for each of the

months of April, May and June 2009.

At June 30, 2009, the Company held five Non-Control/Non-Affiliate investments, seven Control investments and five Affiliate investments, with an aggregate cost basis of approximately \$239 million and an aggregate fair value of approximately \$227 million summarized as follows:

	June 30, 2009	
	Cost	Fair Value
	(in thousands)	
Senior Term Debt	\$121,609	\$113,779
Senior Subordinated Term Debt	72,112	66,135
Preferred & Common Equity Securities	45,322	47,095
Total Investments	\$239,043	\$227,009

"We will strive to maintain our portfolio mix of mezzanine and equity company investments and grow our overall investment portfolio, though we continue to worry about the economy which is reflected in our limited investment activity over the past three quarters. Our goal continues to be the maintenance and consistency of our distributions to stockholders," said Dave Dullum, President.

Subsequent to June 30, 2009, the Company:

- \* Upon maturity of the Securities, repaid the Short-Term Loan in full, and repaid all but \$1.0 million of the amount drawn on the credit facility, which was retained for working capital purposes;
- \* Filed a registration statement with the Securities and Exchange Commission (the "SEC"), that if declared effective by the SEC, will permit the Company to issue, through one or more transactions, up to an aggregate of \$300 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities, and warrants to purchase common stock, or a combination of these securities;
- \* Board of Directors approved the renewal of the Advisory Agreement and the Administration Agreement through August 31, 2010; and
- \* Declared monthly cash distributions of \$0.04 per common share for each of the months of July, August and September 2009.

The financial statements below are without footnotes so readers should obtain and carefully review the Company's Form 10-Q for the quarter ended June 30, 2009, including the footnotes to the financial statements contained therein. The Company has filed the Form 10-Q with the SEC today, which can be retrieved from the SEC's website at [www.sec.gov](http://www.sec.gov) or from the Company's website at [www.GladstoneInvestment.com](http://www.GladstoneInvestment.com). A paper copy can be obtained free of charge by writing to the Company at 1521 Westbranch Drive, Suite 200, McLean, VA 22102.

The Company will hold a conference call Wednesday, August 5, 2009 at 8:30 am EDT. Please call (877) 407-8031 to enter the conference. An operator will monitor the call and set

a queue for questions. A replay of the conference call will be available through September 5, 2009. To hear the replay, please dial (877) 660-6853, access playback account 286 and use ID code 328281. The replay will be available approximately two hours after the call concludes.

The live audio broadcast of Gladstone Investment's quarterly conference call will be available online at [www.GladstoneInvestment.com](http://www.GladstoneInvestment.com) and [www.investorcalendar.com](http://www.investorcalendar.com). The event will be archived and available for replay on the Company's website through November 5, 2009.

Gladstone Investment Corporation is an investment company that seeks to make debt and equity investments in small and medium-sized private businesses in the U.S. in connection with buyouts and other recapitalizations. For more information please visit the Company's website at <http://www.GladstoneInvestment.com>.

The statements in this press release regarding the Company's ability to maintain the value of its investment portfolio, to maintain the portfolio mix of investments, to grow the overall investment portfolio, and to continue its current rate of distributions to stockholders are "forward-looking statements." These forward-looking statements inherently involve certain risks and uncertainties, although they are based on the Company's current plans that are believed to be reasonable as of the date of this press release. Factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to, the duration and potential future effects of the current economic downturn on the Company and its portfolio companies, the Company's ability to obtain the commitment of other lenders to join its credit facility, the Company's ability to maintain its status as a regulated investment company and the Company's ability to generate net investment income. Additional factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements also include those factors listed under the caption "Risk Factors" of the Company's Registration Statement on Form N-2 as filed with the SEC on July 21, 2009. The risk factors set forth in the Form N-2 under the caption "Risk Factors" are specifically incorporated by reference into this press release. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

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

	June 30, 2009	March 31, 2009
	-----	-----
ASSETS		
Non-Control/Non-Affiliate investments (Cost 6/30/09: \$30,328; Cost 3/31/09: \$134,836)	\$ 26,961	\$ 94,740
Control investments (Cost 6/30/09: \$144,908; Cost 3/31/09: \$150,081)	149,509	166,163
Affiliate investments (Cost 6/30/09: \$63,807; Cost 3/31/09: \$64,028)	50,539	53,027
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Total investments at fair value (Cost 6/30/09: \$239,043; Cost 3/31/09: \$348,945)	227,009	313,930
Cash and cash equivalents	84,577	7,236
Interest receivable	952	1,500
Due from Custodian	1,416	2,706
Deferred financing fees	1,387	1,167
Prepaid assets	237	172
Other assets	212	132
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TOTAL ASSETS	\$315,790	\$326,843
	=====	=====

LIABILITIES

Accounts payable and accrued expenses	\$ 350	\$ 1,283
Fee due to Administrator	173	179
Fee due to Adviser	238	187
Short term loan	65,000	--
Borrowings under line of credit	46,940	110,265
Other liabilities	159	127
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TOTAL LIABILITIES 112,860 112,041

NET ASSETS \$202,930 \$214,802

ANALYSIS OF NET ASSETS:

Common stock, \$0.001 par value, 100,000,000 shares authorized, 22,080,133 shares issued and outstanding at June 30, 2009 and March 31, 2009	\$ 22	\$ 22
Capital in excess of par value	264,697	257,361
Net unrealized depreciation of investment portfolio	(12,034)	(35,015)
Net unrealized depreciation of derivative	(11)	(53)
Accumulated net investment loss	(49,744)	(7,513)
	-----	-----
TOTAL NET ASSETS	\$202,930	\$214,802
	=====	=====
NET ASSETS PER SHARE	\$ 9.19	\$ 9.73
	=====	=====

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

	Three Months Ended June 30,	
	2009	2008
	-----	-----
INVESTMENT INCOME		
Interest income		
Non-Control/Non-Affiliate investments	\$ 1,029	\$ 2,324
Control investments	2,777	2,569
Affiliate investments	1,278	1,111
Cash and cash equivalents	--	24
	-----	-----
Total interest income	5,084	6,028
Other income	85	10
	-----	-----
Total investment income	5,169	6,038

EXPENSES		
Loan servicing fee	1,068	1,254
Base management fee	313	426
Administration fee	173	235
Interest expense	702	1,102
Amortization of deferred finance costs	314	139
Professional fees	201	131
Stockholder related costs	82	100
Insurance expense	57	53
Directors fees	51	47
Other	64	74
	-----	-----
Expenses before credit from Adviser	3,025	3,561
	-----	-----
Credits to base management fee	(301)	(574)
	-----	-----
Total expenses net of credit to base management fee	2,724	2,987
	-----	-----
NET INVESTMENT INCOME	2,445	3,051
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REALIZED AND UNREALIZED (LOSS) GAIN ON INVESTMENTS		
Realized loss on sale of Non-Control/ Non-Affiliate investments	(34,605)	(1,718)
Realized loss on termination of derivative	(53)	--
Net unrealized appreciation of Non-Control/ Non-Affiliate investments	36,728	4,465
Net unrealized depreciation of Control investments	(11,481)	(4,867)
Net unrealized depreciation of Affiliate investments	(2,266)	(5,415)
Net unrealized appreciation of derivative	42	--
	-----	-----
Net loss on investments	(11,635)	(7,535)
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NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ (9,190)	\$ (4,484)
	=====	=====
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:		
Basic and Diluted	\$ (0.42)	\$ (0.22)
	=====	=====
SHARES OF COMMON STOCK OUTSTANDING:		
Basic and diluted weighted average shares	22,080,133	19,943,346

GLADSTONE INVESTMENT CORPORATION  
CONDENSED CONSOLIDATED FINANCIAL HIGHLIGHTS  
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AND PER UNIT DATA)  
(UNAUDITED)

Three Months Ended  
June 30,

	2009	2008
	-----	-----
Per Share Data (1)		
-----		
Net asset value at beginning of period	\$ 9.73	\$ 12.47
Income from investment operations:		
Net investment income (2)	0.11	0.15
Realized loss on sale of investments (2)	(1.57)	(0.08)
Net unrealized appreciation (depreciation) of investments (2)	1.04	(0.29)
	-----	-----
Total from investment operations	(0.42)	(0.22)
	-----	-----
Distributions from:		
Net investment income	(0.12)	(0.24)
	-----	-----
Total distributions (3)	(0.12)	(0.24)
Effect of shelf offering:		
Shelf registration offering costs	--	(0.03)
Effect on distribution of stock rights offering after record date (4)	--	(1.21)
	-----	-----
Total effect of shelf offering	--	(1.24)
	-----	-----
Net asset value at end of period	\$ 9.19	\$ 10.77
	=====	=====
Per share market value at beginning of period	\$ 3.82	\$ 9.41
Per share market value at end of period	4.83	6.43
Total Return (5)	35.24%	-29.57%
Shares outstanding at end of period	22,080,133	22,080,133
Statement of Assets and Liabilities Data:		
-----		
Net assets at end of period	\$ 202,930	\$ 237,756
Average net assets (6)	210,188	242,655
Senior Securities Data:		
-----		
Borrowings under line of credit	\$ 46,940	\$ 129,285
Asset coverage ratio (7)	532%	284%
Asset coverage per unit (8)	\$ 5,323	\$ 2,840
Ratios/Supplemental Data:		
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Ratio of expenses to average net assets (9) (10)	5.76%	5.87%
Ratio of net expenses to average net assets (9) (11)	5.18%	4.93%
Ratio of net investment income to average net assets (9)	4.65%	5.03%

(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 dividends reinvested in accordance with the terms of our dividend reinvestment plan.
- (6) Calculated using the average of the balance of net assets at the end of each month of the reporting period.
- (7) As a business development company, the Company is generally required to maintain a ratio of at least 200% of total assets, less all liabilities and indebtedness not represented by senior securities, to total borrowings.
- (8) Asset coverage per unit 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 credits from the Adviser.
- (11) Ratio of net expenses to average net assets is computed using total expenses net of credits to the management fee.

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