GLADSTONE INVESTMENT CORPORATION\DE
Form 10-Q
February 04, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2014

OR

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

For the transition period from to

Commission file number: 001-34007

GLADSTONE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

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

1521 WESTBRANCH DRIVE, SUITE 100 **MCLEAN, VIRGINIA**	**22102**
(Address of principal executive office)	**(Zip Code)**

(703) 287-5800

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 x No ¨

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 ¨ No ¨

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. The number of shares of the issuer s Common Stock, $0.001 par value per share, outstanding as of February 3, 2015, was 26,475,958.

Table of Contents

GLADSTONE INVESTMENT CORPORATION

TABLE OF CONTENTS

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

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

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

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

(B) Refer to Note 10 *Commitments and Contingencies* for additional information.

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

2

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

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

NET INVESTMENT INCOME		**5,839**		4,402		**14,902**		14,663
REALIZED AND UNREALIZED (LOSS) GAIN								
Net realized (loss) gain:								
Non-Control/Non-Affiliate investments				(11,361)				(11,361)
Affiliate investments				(1,754)				(1,754)
Control investments		**(209)**				**(221)**		24,804
Other				(29)				(29)
Total net realized (loss) gain		**(209)**		(13,144)		**(221)**		11,660
Net unrealized appreciation (depreciation):								
Non-Control/Non-Affiliate investments		**3,731**		(2,548)		**13,630**		(10,926)
Affiliate investments		**(1,772)**		4,651		**(4,713)**		1,629
Control investments				(4,413)		**(2,993)**		(20,103)
Other				366		**451**		811
Total net unrealized appreciation (depreciation)		**1,959**		(1,944)		**6,375**		(28,589)
Net realized and unrealized gain (loss)		**1,750**		(15,088)		**6,154**		(16,929)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**7,589**	$	(10,686)	**$**	**21,056**	$	(2,266)
BASIC AND DILUTED PER COMMON SHARE:								
Net investment income	**$**	**0.22**	$	0.17	**$**	**0.56**	$	0.55
Net increase (decrease) in net assets resulting from operations	**$**	**0.29**	$	(0.40)	**$**	**0.80**	$	(0.09)
Distributions declared and paid	**$**	**0.23**	$	0.23	**$**	**0.59**	$	0.53
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:								
Basic and diluted		**26,475,958**		26,475,958		**26,475,958**		26,475,958

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

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

3

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended December 31, 2014	2013
OPERATIONS		
Net investment income	**$ 14,902**	$ 14,663
Net realized (loss) gain on investments	**(221)**	11,689
Net realized loss on other		(29)
Net unrealized appreciation (depreciation) of investments	**5,924**	(29,400)
Net unrealized depreciation of other	**451**	811
Net increase (decrease) in net assets from operations	**21,056**	(2,266)
DISTRIBUTIONS TO COMMON STOCKHOLDERS	**(15,621)**	(14,032)
TOTAL INCREASE (DECREASE) IN NET ASSETS	**5,435**	(16,298)
NET ASSETS, BEGINNING OF PERIOD	**220,837**	240,963
NET ASSETS, END OF PERIOD	**$ 226,272**	$ 224,665

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

4

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase (decrease) in net assets resulting from operations	**$ 21,056**	$ (2,266)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	**(79,329)**	(100,134)
Principal repayments of investments	**5,579**	46,634
Increase in investment balance due to paid in kind interest	**(78)**	(58)
Net proceeds from the sale of investments	**(221)**	31,602
Net realized loss (gain) on investments	**221**	(11,689)
Net realized loss on other		29
Net unrealized (appreciation) depreciation of investments	**(5,924)**	29,400
Net unrealized appreciation of other	**(451)**	(811)
Amortization of deferred financing costs	**940**	761
Decrease (increase) in restricted cash	**2,209**	(4,750)
Increase in interest receivable	**(401)**	(11)
(Increase) decrease in due from custodian	**(706)**	330
Decrease in other assets	**240**	340
Increase (decrease) in accounts payable and accrued expenses	**64**	(160)
Increase (decrease) in fees due to Adviser[(A)]	**363**	(1,044)
Increase in administration fee due to Administrator[(A)]	**2**	18
(Decrease) increase in other liabilities	**(188)**	461
Net cash used in operating activities	**(56,624)**	(11,348)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans		56,515
Repayments on short-term loans		(106,030)
Proceeds from line of credit	**90,550**	108,500
Repayments on line of credit	**(56,000)**	(103,300)
Proceeds from secured borrowing	**96**	
Purchase of derivative		(75)
Proceeds from issuance of preferred stock	**41,400**	
Deferred financing costs	**(3,445)**	(1,100)
Distributions paid to common stockholders	**(15,621)**	(14,032)

Net cash provided by (used in) financing activities		**56,980**		(59,522)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**356**		(70,870)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**4,553**		85,904
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**4,909**	$	15,034

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

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS(N):					
Auto Safety House, LLC	Automobile	Line of Credit, $1,000 available (7.0%, Due 10/2019)(I)(K)	$	$	$
		Senior Term Debt (7.0%, Due 10/2019)(I)(K)	5,000	5,000	4,863
				5,000	4,863
Cavert II Holding Corp.	Containers, Packaging, and Glass	Preferred Stock (18,446 shares)(C)(F)(L)		1,845	3,203
				1,845	3,203
Country Club Enterprises, LLC	Automobile	Senior Subordinated Term Debt (18.6%, Due 5/2017)(L)	4,000	4,000	4,000
		Preferred Stock (7,079,792 shares)(C)(F)(L)		7,725	2,104
		Guaranty ($2,000)(D)			
		Guaranty ($670)(D)			
				11,725	6,104
Drew Foam Company, Inc.	Chemicals, Plastics, and Rubber	Senior Term Debt (13.5%, Due 8/2017)(L)	10,913	10,913	10,913
		Preferred Stock (34,045 shares)(C)(F)(L)		3,375	3,245
		Common Stock (5,372 shares)(C)(F)(L)		63	
				14,351	14,158
Frontier Packaging, Inc.	Containers, Packaging, and Glass	Senior Term Debt (12.0%, Due 12/2017)(L)	12,500	12,500	12,500
		Preferred Stock (1,373 shares)(C)(F)(L)		1,373	1,613
		Common Stock (152 shares)(C)(F)(L)		152	850

				14,025	14,963
Funko, LLC(M)	Personal and Non-Durable Consumer Products (Manufacturing Only)	Senior Subordinated Term Debt (9.5%, Due 5/2019)(I)(J)	7,500	7,500	7,500
		Senior Subordinated Term Debt (9.5%, Due 5/2019)(I)(J)	2,000	2,000	2,000
		Preferred Stock (1,305 shares)(C)(F)(L)		1,305	9,511
				10,805	19,011
Ginsey Home Solutions, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Subordinate Term Debt (13.5%, Due 1/2018)(H)(L)	13,300	13,300	13,300
		Preferred Stock (18,898 shares)(C)(F)(L)		9,583	3,109
		Common Stock (63,747 shares)(C)(F)(L)		8	
				22,891	16,409
Jackrabbit, Inc.	Farming and Agriculture	Senior Term Debt (13.5%, Due 4/2018)(L)	11,000	11,000	11,000
		Preferred Stock (3,556 shares)(C)(F)(L)		3,556	4,063
		Common Stock (548 shares)(C)(F)(L)		94	3,803
				14,650	18,866
Mathey Investments, Inc.	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	Senior Term Debt (10.0%, Due 3/2016)(L)	1,375	1,375	1,375
		Senior Term Debt (12.0%, Due 3/2016)(L)	3,727	3,727	3,727
		Senior Term Debt (12.5%, Due 3/2016)(E)(I)(L)	3,500	3,500	3,500
		Common Stock (29,102 shares)(C)(F)(L)		777	7,644
				9,379	16,246
Mitchell Rubber Products, Inc.	Chemicals, Plastics, and Rubber	Subordinated Term Debt (13.0%, Due 10/2016)(I)(K)	13,560	13,560	10,848
		Subordinated Term Debt (13.0%, Due 12/2015)(I)(K)	1,500	1,500	1,200
				2,790	

		Preferred Stock (27,900 shares)(C)(F)(L)			
		Common Stock (27,900 shares)(C)(F)(L)		28	
				17,878	12,048
Quench Holdings Corp.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Common Stock (4,770,392 shares)(C)(F)(L)		3,397	4,753
				3,397	4,753
SBS, Industries, LLC	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	Senior Term Debt (14.0%, Due 8/2016)(L)	11,355	11,355	11,355
		Preferred Stock (19,935 shares)(C)(F)(L)		1,994	2,577
		Common Stock (221,500 shares)(C)(F)(L)		221	381
				13,570	14,313

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
Schylling Investments, LLC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Term Debt (13.0%, Due 8/2018)(L)	$ 13,081	$ 13,081	$ 13,081
		Preferred Stock (4,000 shares)(C)(F)(L)		4,000	
				17,081	13,081
Star Seed, Inc.	Farming and Agriculture	Senior Term Debt (12.5%, Due 4/2018)(L)	7,500	7,500	7,500
		Preferred Stock (1,499 shares)(C)(F)(L)		1,499	
		Common Stock (600 shares)(C)(F)(L)		1	
				9,000	7,500
Total Non-Control/Non-Affiliate Investments (represents 42.0% of total investments at fair value)				**$ 165,597**	**$ 165,518**
AFFILIATE INVESTMENTS(O):					
Acme Cryogenics, Inc.	Chemicals, Plastics, and Rubber	Senior Subordinated Term Debt (11.5%, Due 3/2015)(I)(L)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (965,982 shares)(C)(F)(L)		7,956	8,442
		Common Stock (549,908 shares)(C)(F)(L)		1,197	
		Common Stock Warrants (465,639 shares)(C)(F)(L)		25	
				23,678	22,942

Alloy Die Casting Corp.(M)	Diversified/Conglomerate Manufacturing	Senior Term Debt (13.5%, Due 10/2018)(K)	12,215	12,215	12,093
		Preferred Stock (4,064 shares)(C)(F)(L)		4,064	3,699
		Common Stock (630 shares)(C)(F)(L)		41	
				16,320	15,792
Behrens Manufacturing, LLC(M)	Diversified/Conglomerate Manufacturing	Senior Term Debt (13.0%, Due 12/2018)(L)	9,975	9,975	9,975
		Preferred Stock (2,923 shares) (C)(F)(L)		2,922	2,808
				12,897	12,783
B-Dry, LLC	Personal, Food and Miscellaneous Services	Line of Credit, $0 available (6.5% (0.8% Unused Fee), Due 5/2015)(L)	1,250	1,250	813
		Senior Term Debt (13.5%, Due 5/2015)(L)	6,433	6,443	4,188
		Senior Term Debt (13.5%, Due 5/2015)(L)	840	840	546
		Preferred Stock (2,250 shares)(C)(F)(L)		2,250	
		Common Stock (2,250 shares)(C)(F)(L)			
		Common Stock Warrants (85 shares)(C)(F)(L)		300	
				11,083	5,547
B+T Group Acquisition Inc.(M)	Telecommunications	Line of Credit, $700 available (1.0% Unused Fee), Due 6/2015)(J)	700	700	700
		Senior Term Debt (13.0%, Due 12/2019)(J)	14,000	14,000	14,000
		Convertible Preferred Stock (12,841 shares)(C)(F)(J)		4,197	4,197
				18,897	18,897
Cambridge Sound Management, LLC	Home and office Furnishings, Housewares and Durable Consumer Products	Line of Credit, $1,000 available (13.0% (1.0% Unused Fee), Due 9/2015)(L)			
		Senior Term Debt (13.0%, Due 9/2019)(L)	15,000	15,000	15,000
		Preferred Stock (4,500 shares) (C)(F)(L)		4,500	7,556
				19,500	22,556

Channel Technologies Group, LLC	Diversified/Conglomerate Manufacturing	Preferred Stock (2,279 shares)(C)(F)(L)		2,864	1,278
		Common Stock (2,279,020 shares)(C)(F)(L)			
				2,864	1,278
Danco Acquisition Corp.	Diversified/Conglomerate Manufacturing	Line of Credit, $550 available (4.0% (0.5% Unused Fee), Due 8/2015)(L)	4,000	4,000	349
		Senior Term Debt (4.0%, Due 8/2015)(L)	2,575	2,575	225
		Senior Term Debt (4.0%, Due 8/2015)(L)	8,795	8,795	767
		Senior Term Debt (5.0%, Due 8/2015)(E)(L)	1,150	1,150	100
		Preferred Stock (25 shares)(C)(F)(L)		2,500	
		Common Stock Warrants (1,241 shares)(C)(F)(L)		3	
				19,023	1,441

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
Edge Adhesives Holdings, Inc.(M)	Diversified/Conglomerate	Line of Credit, $850 available (10.5% (1.0% Unused Fee), Due 8/2015)(K)	$ 650	$ 650	$ 647
		Senior Term Debt (12.5%, Due 2/2019)(K)	9,300	9,300	9,277
		Senior Subordinated Term Debt (13.5%, Due 2/2019)(K)	2,400	2,400	2,397
		Convertible Preferred Stock (3,474 shares) (C)(F)(L)		3,474	3,920
				15,824	16,241
Head Country Food Products,	Beverage, Food and Tobacco	Senior Term Debt (12.5%, Due 2/2019)(L)	9,050	9,050	9,050
		Preferred Stock (4,000 shares)(C)(F)(L)		4,000	2,880
				13,050	11,930
Meridian Rack & Pinion, Inc. (M)	Automobile	Senior Term Debt (13.5%, Due 12/2018)(K)	9,660	9,660	9,600
		Preferred Stock (3,381 shares)(C)(F)		3,381	2,983
				13,041	12,583
NDLI Inc.	Cargo Transport	Line of Credit, $0 available (10.5% (0.5% Unused Fee), Due 1/2016)(K)	1,925	1,925	1,448
		Senior Term Debt (11.0%, Due 1/2018)(K)	7,227	7,227	5,438
		Senior Term Debt (10.5%, Due 1/2018)(K)	3,650	3,650	2,738
		Senior Term Debt (10.5%, Due 1/2018)(E)(K)	3,650	3,650	2,756

		Preferred Stock (3,600 shares)(C)(F)(L)		3,600	
		Common Stock (545 shares)(C)(F)(L)			
				20,052	12,380
Precision Southeast, Inc.	Diversified/Conglomerate Manufacturing	Senior Term Debt (14.0%, Due 12/2015)(L)	5,617	5,617	5,617
		Preferred Stock (19,091 shares)(C)(F)(L)		1,909	
		Common Stock (90,909 shares)(C)(F)(L)		91	
				7,617	5,617
Old World Christmas, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Line of Credit, $570 available (10% (1.0% Unused Fee), Due 4/2015)(J)	2,430	2,430	2,430
		Senior Term Debt (13.3%, Due 10/2019)(J)	15,770	15,770	15,770
		Preferred Stock (6,180 shares)(C)(F)(J)		6,180	6,180
				24,380	24,380
SOG Specialty K&T, LLC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Term Debt (13.3%, Due 10/2017) (L)	6,200	6,200	6,200
		Senior Term Debt (14.8%, Due 10/2017) (L)	12,200	12,200	12,200
		Preferred Stock (9,749 shares)(C)(F)(L)		9,749	6,540
				28,149	24,940
Tread Corp.	Oil and Gas	Line of Credit, $1,786 available (12.5%, Due 2/2015)(G)(I)(L)	1,464	1,464	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)(G)(I)(L)	5,000	5,000	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)(G)(I)(L)	2,750	2,750	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)(G)(I)(L)	1,000	1,000	
		Senior Subordinated Term Debt (12.5%, Due on Demand)(G)(I)(L)	510	510	
				3,333	

		Preferred Stock (3,332,765 shares)(C)(F)(L)			
		Common Stock (7,716,320 shares)(C)(F)(L)		501	
		Common Stock Warrants (2,372,727 shares)(C)(F)(L)		3	
				14,561	
Total Affiliate Investments (represents 53.1% of total investments at fair value)				**$ 260,936**	**$ 209,307**
CONTROL INVESTMENTS(P):					
Galaxy Tool Holding Corp.	Aerospace and Defense	Line of Credit, $450 available (10.0%, Due 9/2015)(L)	$ 2,050	$ 2,050	$ 2,050
		Senior Subordinated Term Debt (13.5%, Due 8/2017)(L)	15,520	15,520	15,520
		Preferred Stock (6,039,387 shares)(C)(F)(L)		11,464	
		Common Stock (88,843 shares)(C)(F)(L)		48	
				29,082	17,570
Roanoke Industries Corp.	Buildings and Real Estate	Senior Term Debt (14.0%, Due 8/2016)(L)	1,650	1,650	1,650
		Common Stock (1,000 shares)(C)(F)(L)		100	100
				1,750	1,750
Total Control Investments (represents 4.9% of total investments at fair value)				**$ 30,832**	**$ 19,320**
TOTAL INVESTMENTS				**$ 457,365**	**$ 394,145**

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

(A) Certain of the securities listed are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $371.0 million at fair value, are pledged as collateral to our Credit Facility as described further in Note 5 Borrowings. Additionally, all of our investments are considered non-qualifying assets under Section 55 of the Investment Company Act of 1940, as amended, (the 1940 Act) as of December 31, 2014.

(B) Percentages represent the weighted average cash interest rates in effect at December 31, 2014, and due date represents the contractual maturity date. Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate (LIBOR). If applicable, paid-in-kind (PIK) interest rates are noted separately from the cash interest rates.

(C) Security is non-income producing.

(D) Refer to Note 10 *Commitments and Contingencies* for additional information regarding these guaranties.

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

(F) Where applicable, aggregates all shares of such class of stock owned without regard to specific series owned within such class (some series of which may or may not be voting shares) or aggregates all warrants to purchase shares of such class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.

(G) Debt security is on non-accrual status.

(H) $5.1 million of the debt security participated to a third party but accounted for as collateral for a secured borrowing for accounting principles generally accepted in the U.S. (GAAP) purposes as of December 31, 2014.

(I) Debt security has a fixed interest rate.

(J) New portfolio investment valued at cost, as it was determined that the price paid during the three months ended December 31, 2014 best represents fair value as of December 31, 2014.

(K) Fair value was based on internal yield analysis or on estimates of value submitted by Standard & Poor s Securities Evaluations, Inc. (SPSE).

(L) Fair value was based on the total enterprise value of the portfolio company, which was then allocated to the portfolio company s securities in order of their relative priority in the capital structure.

(M) One of our affiliated funds, Gladstone Capital Corporation (Gladstone Capital), co-invested with us in this portfolio company pursuant to an exemptive order granted by the Securities and Exchange Commission (SEC).

(N) Non-Control/Non-Affiliate investments, as defined by the 1940 Act, are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.

(O) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.

(P) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

MARCH 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS(L):					
Acme Cryogenics, Inc.	Chemicals, Plastics, and Rubber	Senior Subordinated Term Debt (11.5%, Due 3/2015)(I)(L)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (898,814 shares)(C)(F)(L)		6,984	11,276
		Common Stock (418,072 shares)(C)(F)(L)		1,045	
		Common Stock Warrants (465,639 shares)(C)(F)(L)		25	
				22,554	25,776
Alloy Die Casting Corp.(M)	Diversified/Conglomerate Manufacturing	Senior Term Debt (13.5%, Due 10/2018)(K)	12,215	12,215	12,261
		Preferred Stock (4,064 shares)(C)(F)(L)		4,064	1,948
		Common Stock (630 shares)(C)(F)(L)		41	
				16,320	14,209
Auto Safety House, LLC	Automobile	Line of Credit, $1,000 available (7.0%, Due 10/2018)(I)(K)	5,000	5,000	4,925
		Guaranty ($500)(D)			
		Guaranty ($250)(D)			
				5,000	4,925
B-Dry, LLC	Personal, Food and Miscellaneous Services	Line of Credit, $0 available (6.5%, Due 5/2014)(K)	750	750	566
		Senior Term Debt (13.5%, Due 5/2014)(K)	6,433	6,443	4,865
		Senior Term Debt (13.5%, Due 5/2014)(K)	2,840	2,840	2,144
		Common Stock Warrants (85 shares)(C)(F)(L)		300	

				10,333	7,575
Cavert II Holding Corp.	Containers, Packaging, and Glass	Preferred Stock (18,446 shares)(C)(F)(L)		1,845	3,023
				1,845	3,023
Country Club Enterprises, LLC	Automobile	Senior Subordinated Term Debt (18.6%, Due 11/2014)(L)	4,000	4,000	4,000
		Preferred Stock (7,079,792 shares)(C)(F)(L)		7,725	3,670
		Guaranty ($2,000)(D)			
		Guaranty ($878)(D)			
				11,725	7,670
Drew Foam Company, Inc.	Chemicals, Plastics, and Rubber	Senior Term Debt (13.5%, Due 8/2017)(L)	10,913	10,913	10,913
		Preferred Stock (34,045 shares)(C)(F)		3,375	1,351
		Common Stock (5,372 shares)(C)(F)		63	
				14,351	12,264
Frontier Packaging, Inc.	Containers, Packaging, and Glass	Senior Term Debt (12.0%, Due 12/2017)(L)	12,500	12,500	12,500
		Preferred Stock (1,373 shares)(C)(F)(L)		1,373	1,522
		Common Stock (152 shares)(C)(F)(L)		152	843
				14,025	14,865
Funko, LLC(M)	Personal and Non-Durable Consumer Products (Manufacturing Only)	Senior Subordinated Term Debt (12.0% and 1.5% PIK, Due 5/2019)(K)	7,587	7,587	7,729
		Preferred Stock (1,305 shares)(C)(F)(L)		1,305	2,276
				8,892	10,005
Ginsey Home Solutions, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Subordinate Term Debt (13.5%, Due 1/2018)(H)(L)	13,050	13,050	13,050
		Preferred Stock (18,898 shares)(C)(F)(L)		9,393	3,082
		Common Stock (63,747 shares)(C)(F)(L)		8	
				22,451	16,132

Jackrabbit, Inc.	Farming and Agriculture	Line of Credit, $3,000 available (13.5%, Due 4/2014)(L)			
		Senior Term Debt (13.5%, Due 4/2018)(L)	11,000	11,000	11,000
		Preferred Stock (3,556 shares)(C)(F)(L)		3,556	1,963
		Common Stock (548 shares)(C)(F)(L)		94	
				14,650	12,963
Mathey Investments, Inc.	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	Senior Term Debt (10.0%, Due 3/2016)(L)	1,375	1,375	1,375
		Senior Term Debt (12.0%, Due 3/2016)(L)	3,727	3,727	3,727
		Senior Term Debt (12.5%, Due 3/2016)(E)(I)(L)	3,500	3,500	3,500
		Common Stock (29,102 shares)(C)(F)(L)		777	4,895
				9,379	13,497

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

MARCH 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	**Industry**	**Investment(B)**	**Principal**	**Cost**	**Fair Value**
Mitchell Rubber Products, Inc.	Chemicals, Plastics, and Rubber	Subordinated Term Debt (13.0%, Due 10/2016)(I)(K)	$ 13,560	$ 13,560	$ 13,628
		Preferred Stock (27,900 shares)(C)(F)(L)		2,790	1,086
		Common Stock (27,900 shares)(C)(F)(L)		28	
				16,378	14,714
Noble Logistics, Inc.	Cargo Transport	Line of Credit, $0 available (10.5%, Due 1/2015)(K)	800	800	204
		Senior Term Debt (11.0%, Due 1/2015)(K)	7,227	7,227	1,842
		Senior Term Debt (10.5%, Due 1/2015)(K)	3,650	3,650	931
		Senior Term Debt (10.5%, Due 1/2015)(E)(K)	3,650	3,650	931
				15,327	3,908
Precision Southeast, Inc.	Diversified/Conglomerate Manufacturing	Senior Term Debt (14.0%, Due 12/2015)(L)	5,617	5,617	5,617
		Preferred Stock (19,091 shares)(C)(F)(L)		1,909	
		Common Stock (90,909 shares)(C)(F)(L)		91	
				7,617	5,617
Quench Holdings Corp.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Common Stock (4,770,391 shares)(C)(F)(L)		3,397	5,056

				3,397	5,056
SBS, Industries, LLC	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	Senior Term Debt (14.0%, Due 8/2016)(L)	11,355	11,355	11,355
		Preferred Stock (19,935 shares)(C)(F)(L)		1,994	1,064
		Common Stock (221,500 shares)(C)(F)(L)		221	
				13,570	12,419
Schylling Investments, LLC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Term Debt (13.0%, Due 8/2017)(K)	13,081	13,081	13,228
		Preferred Stock (4,000 shares) (C)(F)(L)		4,000	
				17,081	13,228
Star Seed, Inc.	Farming and Agriculture	Senior Term Debt (12.5%, Due 4/2018)(K)	7,500	7,500	7,594
		Preferred Stock (1,499 shares)(C)(F)(L)		1,499	
		Common Stock (600 shares)(C)(F)(L)		1	
				9,000	7,594
Total Non-Control/Non-Affiliate Investments (represents 65.4% of total investments at fair value)				**$ 233,895**	**$ 205,440**
AFFILIATE INVESTMENTS(O):					
Behrens Manufacturing, LLC(M)	Diversified/Conglomerate Manufacturing	Senior Term Debt (13.0%, Due 12/2018)(L)	$ 9,975	$ 9,975	$ 9,975
		Preferred Stock (2,923 shares) (C)(F)(L)		2,922	2,754
				12,897	12,729
Channel Technologies Group, LLC	Diversified/Conglomerate Manufacturing	Preferred Stock (2,279 shares)(C)(F)(L)		2,864	3,122
		Common Stock (2,279,020 shares)(C)(F)(L)			
				2,864	3,122
Danco Acquisition Corp.	Diversified/Conglomerate Manufacturing	Line of Credit, $700 available (4.0%, Due	3,450	3,450	690

		8/2015)(K)			
		Senior Term Debt (4.0%, Due 8/2015)(K)	2,575	2,575	515
		Senior Term Debt (4.0%, Due 8/2015)(K)	8,795	8,795	1,759
		Senior Term Debt (5.0%, Due 8/2015)(E)(K)	1,150	1,150	236
		Preferred Stock (25 shares)(C)(F)(L)		2,500	
		Common Stock (1,241 shares)(C)(F)(L)		3	
				18,473	3,200
Edge Adhesives Holdings, Inc.(M)	Diversified/Conglomerate Manufacturing	Line of Credit, $705 available (10.5%, Due 8/2014)(J)	795	795	795
		Senior Term Debt (12.5%, Due 2/2019)(J)	9,300	9,300	9,300
		Senior Subordinated Term Debt (13.5%, Due 2/2019)(J)	2,400	2,400	2,400
		Preferred Stock (3,474 shares) (C)(F)(J)		3,474	3,474
				15,969	15,969
Head Country Food Products, Inc.	Beverage, Food and Tobacco	Line of Credit, $500 available (10.0%, Due 8/2014)(J)			
		Senior Term Debt (12.5%, Due 2/2019)(J)	9,050	9,050	9,050
		Preferred Stock (4,000 shares)(C)(F)(J)		4,000	4,000
				13,050	13,050

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

11

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

MARCH 31, 2014

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
Meridian Rack & Pinion, Inc. [(M)]	Automobile	Senior Term Debt (13.5%, Due 12/2018) [(K)]	$ 9,660	$ 9,660	$ 9,672
		Preferred Stock (3,381 shares) [(C)(F)(L)]		3,381	3,468
				13,041	13,140
SOG Specialty K&T, LLC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Term Debt (13.3%, Due 8/2016)[(L)]	6,200	6,200	6,200
		Senior Term Debt (14.8%, Due 8/2016)[(L)]	12,199	12,199	12,199
		Preferred Stock (9,749 shares)[(C)(F)(L)]		9,749	8,240
				28,148	26,639
Tread Corp.	Oil and Gas	Line of Credit, $779 available (12.5%, Due 6/2014)[(G)(I)(L)]	2,471	2,471	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)[(G)(I)(L)]	5,000	5,000	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)[(G)(I)(L)]	2,750	2,750	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)[(G)(I)(L)]	1,000	1,000	
		Senior Subordinated Term Debt (12.5%, Due on Demand)[(G)(I)(L)]	510	510	
		Preferred Stock (3,332,765 shares)[(C)(F)(L)]		3,333	
		Common Stock (7,716,320 shares)[(C)(F)(L)]		501	
		Common Stock Warrants (2,372,727 shares)[(C)(F)(L)]		3	
				15,568	

Total Affiliate Investments (represents 27.9% of total investments at fair value)				**$ 120,010**	**$ 87,849**
CONTROL INVESTMENTS(P):					
Galaxy Tool Holding Corp.	Aerospace and Defense	Senior Subordinated Term Debt (13.5%, Due 8/2017)(L)	$ 15,520	$ 15,520	$ 15,520
		Preferred Stock (6,039,387 shares)(C)(F)(L)		11,464	2,992
		Common Stock (88,843 shares)(C)(F)(L)		48	
				27,032	18,512
NDLI Acquisition Inc.	Cargo Transport	Preferred Stock (2,600 shares)(C)(F)(L)		2,600	2,592
		Common Stock (545 shares)(C)(F)(L)			
				2,600	2,592
Total Control Investments (represents 6.7% of total investments at fair value)				**$ 29,632**	**$ 21,104**
TOTAL INVESTMENTS(Q)				**$ 383,537**	**$ 314,393**

(A) Certain of the securities listed are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $388.6 million at fair value, are pledged as collateral to our Credit Facility as described further in Note 5 *Borrowings*. Additionally, all of our investments are considered non-qualifying assets under Section 55 of the 1940 Act as of March 31, 2014.

(B) Percentages represent the weighted average cash interest rates in effect at March 31, 2014, and due date represents the contractual maturity date. Unless indicated otherwise, all cash interest rates are indexed to 30-day LIBOR. If applicable, PIK interest rates are noted separately from the cash interest rates.

(C) Security is non-income producing.

(D) Refer to Note 10 *Commitments and Contingencies* for additional information regarding these guaranties.

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

(F) Where applicable, aggregates all shares of such class of stock owned without regard to specific series owned within such class (some series of which may or may not be voting shares) or aggregates all warrants to purchase shares of such class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.

(G) Debt security is on non-accrual status.

(H) $5.0 million of the debt security participated to a third party but accounted for as collateral for a secured borrowing for GAAP purposes as of March 31, 2014.

(I) Debt security has a fixed interest rate.

(J) New portfolio investment valued at cost, as it was determined that the price paid during the three months ended March 31, 2014 best represents fair value as of March 31, 2014.

(K) Fair value was based on internal yield analysis or on estimates of value submitted by Standard & Poor s Securities Evaluations, Inc. (SPSE)

(L) Fair value was based on the total enterprise value of the portfolio company, which was then allocated to the portfolio company s securities in order of their relative priority in the capital structure.

(M)

One of our affiliated funds, Gladstone Capital Corporation (Gladstone Capital), co-invested with us in this portfolio company pursuant to an exemptive order granted by the Securities and Exchange Commission (SEC).

(N) Non-Control/Non-Affiliate investments, as defined by the 1940 Act, are those that are neither Control nor Affiliate investments and in which we own less than 5.0% of the issued and outstanding voting securities.

(O) Affiliate investments, as defined by the 1940 Act, are those in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.

(P) Control investments, as defined by the 1940 Act, are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.

(Q) Cumulative gross unrealized depreciation for federal income tax purposes is $83,197; cumulative gross unrealized appreciation for federal income tax purposes is $13,913. Cumulative net unrealized depreciation is $69,284, based on a tax cost of $383,677.

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

GLADSTONE INVESTMENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

NOTE 1. ORGANIZATION

Gladstone Investment Corporation (Gladstone Investment) was incorporated under the General Corporation Law of the State of Delaware on February 18, 2005, and completed an initial public offering on June 22, 2005. The terms the Company, we, our and us all refer to Gladstone Investment and its consolidated subsidiaries. We are an externally advised, closed-end, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, we have elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). We were established for the purpose of investing in debt and equity securities of established private businesses in the United States (U.S.). Debt investments primarily come in the form of three types of loans: senior term loans, senior subordinated loans and junior subordinated debt. Equity investments primarily take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. Our investment objectives are: (a) to achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that we anticipate will grow over time, and (b) to provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. We aim to maintain a portfolio allocation of approximately 80.0% debt investments and 20.0% equity investments, at cost.

Gladstone Business Investment, LLC (Business Investment), a wholly-owned subsidiary of ours, was established on August 11, 2006 for the sole purpose of owning our portfolio of investments in connection with our revolving line of credit. The financial statements of Business Investment are consolidated with ours. We also have significant subsidiaries whose financial statements are not consolidated with ours. Refer to Note 12 *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by Gladstone Management Corporation (the Adviser), an affiliate of ours and a SEC registered investment adviser, pursuant to an investment advisory agreement and management agreement (the Advisory Agreement). Administrative services are provided by Gladstone Administration, LLC (the Administrator), an affiliate of ours and the Adviser, pursuant to an administration agreement (the Administration Agreement).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of SEC Regulation S-X. Accordingly, we have omitted certain disclosures accompanying annual financial statements prepared in accordance with GAAP. The accompanying *Condensed Consolidated Financial Statements* include our accounts and those of our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. Under Article 6 of Regulation S-X, and the authoritative accounting guidance provided by the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are not permitted to consolidate any portfolio company investments, including those in which we have a controlling interest. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three and nine months ended December 31, 2014, 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 our annual report on Form 10-K for the fiscal year ended March 31, 2014, as filed with the SEC on May 13, 2014.

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

Revisions

Certain amounts in the prior year s consolidated financial statements have been revised to correct the presentation for the three and nine months ended December 31, 2013 with no effect on our financial condition or results of operations. Certain amounts that were revised relate to our change in the classification of certain of our investments among control, affiliate and non-control/non-affiliate investments. The general change in the definitions from prior reported periods to the three and nine months ended December 31, 2013, relate to the use of voting equity securities as the primary determinate of classification compared to the use of both voting and non-voting equity securities in prior periods.

Table of Contents

Other revisions relate to the net presentation of certain fees in our results of operations. The Adviser services, administers and collects on the loans held by Business Investment, in return for which the Adviser receives a 2.0% annual fee from Business Investment. All loan servicing fees are voluntarily and irrevocably credited back to us by the Adviser. Previously, we incorrectly presented the loan servicing fee on a net basis, which is zero because it is 100.0% credited back to us. We have revised our fee presentation related to these loan servicing fees to reflect the gross fee and related gross unconditional, non-contractual and irrevocable credit amounts. Management evaluated these errors in presentation and concluded they were not material to the previously issued financial statements for the three and nine months ended December 31, 2013. The impact of the revisions are shown in the table below:

	Three Months Ended December 31, 2013		Nine Months Ended December 31, 2013	
	As Previously Reported	**As Revised**	**As Previously Reported**	**As Revised**
Interest income				
Non-Control/Non-Affiliate investments	$ 1,625	$ 5,826	$ 2,978	$ 15,719
Affiliate investments	708	160	2,923	1,091
Control investments	5,259	1,606	16,578	5,669
Cash and cash equivalents	1	1	2	2
Total interest income	**7,593**	**7,593**	**22,481**	**22,481**
Other income				
Non-Control/Non-Affiliate investments	5	304	5	878
Affiliate investments	1,000	799	1,333	799
Control investments	98		3,634	3,295
Total other income	**1,103**	**1,103**	**4,972**	**4,972**
Expenses				
Aggregate expenses	5,076	5,076	14,417	14,417
Loan servicing fee		1,089		3,230
Expenses, before credits from Adviser	5,076	6,165	14,417	17,647
Credit to base management fee - loan servicing fee		(1,089)		(3,230)
Credit to fees from Adviser - other	(782)	(782)	(1,627)	(1,627)
Total expenses, net of credits to fees	**4,294**	**4,294**	**12,790**	**12,790**
Net realized (loss) gain				
Non-Control/Non-Affiliate investments		(11,361)		(11,361)
Affiliate investments	(1,754)	(1,754)	(1,754)	(1,754)
Control investments	(11,361)		13,443	24,804
Other	(29)	(29)	(29)	(29)
Total net unrealized (loss) gain	**(13,144)**	**(13,144)**	**11,660**	**11,660**

Net unrealized (depreciation) appreciation								
Non-Control/Non-Affiliate investments		(3,694)		(2,548)		(6,810)		(10,926)
Affiliate investments		983		4,651		3,432		1,629
Control investments		401		(4,413)		(26,022)		(20,103)
Other		366		366		811		811
Total net unrealized depreciation	**$**	**(1,944)**	**$**	**(1,944)**	**$**	**(28,589)**	**$**	**(28,589)**

Investment Valuation Policy

Accounting Recognition

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

Board Responsibility

In accordance with the 1940 Act, our board of directors (our Board of Directors) has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on our established investment valuation policy (the Policy). Our

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

Use of Third Party Valuation Firms

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

The Valuation Team generally assigns SPSE s estimates of fair value to our debt investments where we do not have the ability to effectuate a sale of the applicable portfolio company. The Valuation Team corroborates SPSE s estimates of fair value using one or more of the valuation techniques discussed below. The Valuation Team s estimates of value on a specific debt investment may significantly differ from SPSE s. When this occurs, our Board of Directors reviews whether the Valuation Team has followed the Policy and whether the Valuation Team s recommended value is reasonable in light of the Policy and other relevant facts and circumstances and then votes to accept or reject the Valuation Team s recommended valuation.

Valuation Techniques

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

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

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

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

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

Refer to Note 3 *Investments* for additional information regarding fair value measurements and our application of ASC 820.

Interest Income Recognition

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

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

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We received an aggregate of $0.5 million and $1.0 million of success fees for the three and nine months ended December 31, 2014, respectively, which resulted from prepaid success fees of $0.5 million from SOG Specialty K&T, LLC (SOG) in December 2014, $0.2 million from Auto Safety House, LLC in September 2014, $0.2 million from Frontier Packaging, Inc. in September 2014, and $0.1 million from Mathey Investments, Inc. (Mathey) in September 2014. We received an aggregate of $1.1 million and $3.4 million of success fees during the three and nine months ended December 31, 2013, respectively, which resulted from $0.8 million related to the Channel Technologies Group, LLC debt repayment in October 2013 and $0.2 million related to the Cavert II Holding Corp. debt repayment in December 2013.

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

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

Recent Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, *Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*, which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so there was no impact from adopting this standard on our financial position or results of operations. We adopted ASU 2013-08 beginning with our quarter ended June 30, 2014, and have increased our disclosure requirements as necessary.

In August 2014, the FASB issued Accounting Standards Update 2014-15 (ASU 2014-15), *Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity s Ability to Continue as a Going Concern*. ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity s ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Since this guidance is primarily around certain disclosures to the financial statements, we anticipate no impact on our financial position, results of operations or cash

Table of Contents

flows from adopting this standard. We are currently assessing the additional disclosure requirements, if any, of ASU 2014-15. ASU 2014-15 is effective for the annual period ending after December 31, 2016 and for annual periods and interim periods thereafter, with early adoption permitted.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. We are currently assessing the impact of ASU 2014-09 and anticipate no impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Early adoption is not permitted.

NOTE 3. INVESTMENTS

Fair Value

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

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

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

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

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

Table of Contents

The following table presents our portfolio investments carried at fair value as of December 31 and March 31, 2014, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type and all valued at Level 3 on the ASC 820 fair value hierarchy:

	Total Recurring Fair Value Measurement Reported in *Condensed Consolidated Statements of Assets and Liabilities*	
	December 31, 2014	**March 31, 2014**
Non-Control/Non-Affiliate Investments		
Senior debt	$ 79,814	$ 109,479
Senior subordinated debt	38,848	52,907
Preferred equity	29,424	32,259
Common equity/equivalents	17,432	10,795
Total Non-Control/Non-Affiliate Investments	**165,518**	**205,440**
Affiliate Investments		
Senior debt	141,926	60,391
Senior subordinated debt	16,897	2,400
Preferred equity	50,484	25,058
Total Affiliate Investments	**209,307**	**87,849**
Control Investments		
Senior debt	3,700	
Senior subordinated debt	15,520	15,520
Preferred equity		5,584
Common equity/equivalents	100	
Total Control Investments	**19,320**	**21,104**
Total Investments at fair value using Level 3 inputs	**$ 394,145**	**$ 314,393**

In accordance with the FASB s ASU No. 2011-04, *Fair Value Measurement (Topic820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*, (ASU 2011-04), the following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 31 and March 31, 2014. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt-related calculations and on the cost basis for all equity-related calculations for the particular input.

Quantitative Information about Level 3 Fair Value Measurements

Fair Value as	Fair Value as of March 31,	Valuation Technique/	Unobservable Input	Range / Weighted Average as of	Range / Weighted Average as of

	of December 31, 2014	**2014**	**Methodology**		**December 31, 2014**		**March 31, 2014**	
Senior debt	**$ 176,581**	$ 115,081	TEV	EBITDA multiples	3.6x	7.3x / 5.4x	4.6x	7.3x / 5.6x
				EBITDA	$327	$5,911 / $3,270	$1,558	$6,230 / $3,609
	48,859	54,789	Yield Analysis	Discount Rate	7.9%	22.2% / 15.5%	7.6%	30.0% / 19.2%
Senior subordinated debt	**47,320**	49,470	TEV	EBITDA multiples	4.2x	7.1x / 5.8x	4.1x	7.3x / 5.0x
				EBITDA	$1,280	$5,424 / $3,221	$36	$6,156 / $4,159
	23,945	21,357	Yield Analysis	Discount Rate	9.3%	27.2% / 19.7%	12.8%	12.8% / 12.8%
Preferred equity	**79,908**	62,901	TEV	EBITDA multiples	3.6x	8.8x / 5.9x	3.5x	8.5x / 5.1x
				EBITDA	$327	$19,240 / $3,641	$36	$10,621 / $4,266
Common equity/equivalents	**17,532**	10,795	TEV	EBITDA multiples	3.6x	18.0x / 11.5x	3.4x	16.0x / 10.5x
				EBITDA	$327	$9,291 / $6,040	$36	$10,621 / $6,008
Total	**$ 394,145**	$ 314,393						

Fair value measurements can be sensitive to changes in one or more of the valuation inputs. Changes in market yields, discounts rates, leverage, EBITDA or EBITDA multiples (or revenue or revenue multiples), each in isolation, may change the fair value of certain of our investments. Generally, an increase in market yields, discount rates or leverage or a decrease in EBITDA or EBITDA multiples (or revenue or revenue multiples) may result in a decrease in the fair value of certain of our investments.

Table of Contents

The following tables provide the changes in fair value, broken out by security type, during the three and nine months ended December 31, 2014 and 2013 for all of our investments.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
FISCAL YEAR TO DATE 2015:					
Three months ended December 31, 2014:					
Fair value as of September 30, 2014	$ 192,698	$ 71,474	$ 63,199	$ 19,530	$ 346,901
Total (losses) gains:					
Net realized loss[(A)(D)]			(208)	(1)	(209)
Net unrealized (depreciation) appreciation[(B)]	(1,002)	(773)	4,082	(348)	1,959
New investments, repayments and settlements[(C)]:					
Issuances / Originations	36,541	2,894	10,627		50,062
Settlements / Repayments	(2,447)	(2,330)			(4,777)
Sales[(D)]			208	1	209
Transfers[(E)]	(350)		2,000	(1,650)	
Fair value as of December 31, 2014	**$ 225,440**	**$ 71,265**	**$ 79,908**	**$ 17,532**	**$ 394,145**
Nine months ended December 31, 2014:					
Fair value as of March 31, 2014	$ 169,870	$ 70,827	$ 62,901	$ 10,795	$ 314,393
Total (losses) gains:					
Net realized loss[(A)(D)]			(220)	(1)	(221)
Net unrealized appreciation (depreciation)[(B)]	3,939	(2,219)	(2,281)	6,485	5,924
New investments, repayments and settlements[(C)]:					
Issuances / Originations	54,428	5,728	17,349	1,902	79,407
Settlements / Repayments	(2,447)	(3,071)	(61)		(5,579)
Sales[(D)]			220	1	221
Transfers[(E)]	(350)		2,000	(1,650)	
Fair value as of December 31, 2014	**$ 225,440**	**$ 71,265**	**$ 79,908**	**$ 17,532**	**$ 394,145**

Table of Contents

FISCAL YEAR TO DATE 2014:	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three months ended December 31, 2013:					
Fair value as of September 30, 2013	$ 134,868	$ 74,740	$ 62,509	$ 15,095	$ 287,212
Total (losses) gains:					
Net realized (loss) gain(A)(D)	(2,856)	(6,050)	(4,233)	24	(13,115)
Net unrealized appreciation (depreciation)(B)	973	122	(10,060)	(6,495)	(15,460)
Reversal of previously-recorded depreciation upon realization(B)	2,272	5,875	4,979	24	13,150
New investments, repayments and settlements(C):					
Issuances / Originations	32,131	309	11,689	44	44,173
Settlements / Repayments	(17,893)	(6,541)			(24,434)
Sales(D)			(747)	(52)	(799)
Transfers(F)			(2,950)	2,950	
Fair value as of December 31, 2013	**$ 149,495**	**$ 68,455**	**$ 61,187**	**$ 11,590**	**$ 290,727**
Nine months ended December 31, 2013:					
Fair value as of March 31, 2013	$ 103,882	$ 86,811	$ 82,157	$ 13,632	$ 286,482
Total (losses) gains:					
Net realized (loss) gain(A)(D)	(2,856)	(6,050)	20,571	24	11,689
Net unrealized depreciation(B)	(2,433)	(979)	(16,640)	(5,126)	(25,178)
Reversal of previously-recorded depreciation (appreciation) upon realization(B)	2,274	5,875	(12,395)	24	(4,222)
New investments, repayments and settlements(C):					
Issuances / Originations	68,821	9,239	21,994	138	100,192
Settlements / Repayments	(20,193)	(26,441)			(46,634)
Sales(D)			(31,550)	(52)	(31,602)
Transfers(F)			(2,950)	2,950	
Fair value as of December 31, 2013	**$ 149,495**	**$ 68,455**	**$ 61,187**	**$ 11,590**	**$ 290,727**

(A) Included in net realized gain (loss) on investments on our accompanying *Condensed Consolidated Statements of Operations* for the respective periods ended December 31, 2014 and 2013.

(B) Included in net unrealized appreciation (depreciation) of investments on our accompanying *Condensed Consolidated Statements of Operations* for the periods ended December 31, 2014 and 2013.

(C) Includes increases in the cost basis of investments resulting from new portfolio investments, the amortization of discounts, PIK and other non-cash disbursements to portfolio companies, as well as decreases in the cost basis of investments resulting from principal repayments or sales, the amortization of premiums and acquisition costs, and other cost-basis adjustments.

(D) Included in Net realized gains (losses) and Sales are post-closing adjustments recorded in the current period related to exits from prior periods.

(E)

Transfers represent $2.0 million of senior term debt of B-Dry, LLC (B-Dry) and $1.7 million of common equity of Roanoke Industries Corp. (Roanoke), at cost, as of December 31, 2014, which was converted into preferred equity and senior term debt during the quarter ended December 31, 2014, respectively.

(F) Transfers represent $3.0 million of preferred equity of Quench Holding Corp. (Quench), at cost, as of December 31, 2013, which was converted into common equity during the quarter ended December 31, 2013.

Investment Activity

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

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

In August 2014, we made a $1.8 million equity investment in Roanoke, formerly known as Tread Real Estate Corp., which purchased the building owned by another one of our portfolio companies, Tread. This building has subsequently been leased back to Tread.

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

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

Table of Contents

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

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

Investment Concentrations

As of December 31, 2014, our investment portfolio consisted of investments in 32 portfolio companies located in 14 states across 16 different industries with an aggregate fair value of $394.1 million, of which our investments in SOG, Old World, and Acme Cryogenics, Inc., our three largest portfolio investments at fair value, collectively comprised $72.3 million, or 18.3%, of our total investment portfolio at fair value. The following table summarizes our investments by security type as of December 31 and March 31, 2014:

	December 31, 2014				**March 31, 2014**			
	Cost		**Fair Value**		**Cost**		**Fair Value**	
Senior debt	**$ 247,924**	**54.2%**	**$ 225,440**	**57.2%**	$ 196,293	51.2%	$ 169,870	54.0%
Senior subordinated debt	**85,004**	**18.6**	**71,265**	**18.1**	82,348	21.5	70,827	22.5
Total debt	**332,928**	**72.8**	**296,705**	**75.3**	278,641	72.7	240,697	76.5
Preferred equity	**117,387**	**25.7**	**79,908**	**20.3**	98,099	25.6	62,901	20.0
Common equity/equivalents	**7,050**	**1.5**	**17,532**	**4.4**	6,797	1.7	10,795	3.5
Total equity/equivalents	**124,437**	**27.2**	**97,440**	**24.7**	104,896	27.3	73,696	23.5
Total Investments	**$ 457,365**	**100.0%**	**$ 394,145**	**100.0%**	$ 383,537	100.0%	$ 314,393	100.0%

Investments at fair value consisted of the following industry classifications as of December 31 and March 31, 2014:

	December 31, 2014		**March 31, 2014**	
	Fair Value	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**
Home and Office Furnishings, Housewares, and Durable Consumer Products	**$ 68,098**	**17.3%**	$ 21,188	6.7%
	53,153	**13.5**	54,845	17.4

Diversified/Conglomerate Manufacturing				
Chemicals, Plastics, and Rubber	**49,147**	**12.5**	52,753	16.8
Leisure, Amusement, Motion Pictures, Entertainment	**38,021**	**9.6**	39,867	12.7
Machinery (Non-agriculture, Non-construction, Non-electronic)	**30,560**	**7.8**	25,917	8.2
Farming and Agriculture	**26,367**	**6.7**	20,557	6.5
Automobile	**23,550**	**6.0**	25,735	8.2
Personal and Non-Durable Consumer Products (Manufacturing Only)	**19,011**	**4.8**	10,005	3.2
Telecommunications	**18,897**	**4.8**		
Containers, Packaging, and Glass	**18,165**	**4.6**	17,889	5.7
Aerospace and Defense	**17,570**	**4.5**	18,512	5.9
Cargo Transport	**12,380**	**3.1**	6,500	2.1
Beverage Food and Tobacco	**11,930**	**3.0**	13,050	4.2
Personal, Food and Miscellaneous Services	**5,546**	**1.4**	7,575	2.4
Buildings and Real Estate	**1,750**	**0.4**		
Oil and Gas				
Total Investments	**$ 394,145**	**100.0%**	$ 314,393	100.0%

Investments at fair value were included in the following geographic regions of the U.S. as of December 31 and March 31, 2014:

	December 31, 2014		**March 31, 2014**	
	Fair Value	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**
West	**$ 150,165**	**38.1%**	$ 117,781	37.5%
South	**120,281**	**30.5**	89,915	28.6
Northeast	**85,846**	**21.8**	67,862	21.6
Midwest	**37,853**	**9.6**	38,835	12.3
Total Investments	**$ 394,145**	**100.0%**	$ 314,393	100.0%

Table of Contents

The geographic region indicates the location of the headquarters for our portfolio companies. A portfolio company may have additional business locations in other geographic regions.

Investment Principal Repayments

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

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

Receivables from Portfolio Companies

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies and are included in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We generally maintain an allowance for uncollectible receivables from portfolio companies when the receivable balance becomes 90 days or more past due or if it is determined based upon management s judgment that the portfolio company is unable to pay its obligations. As of December 31 and March 31, 2014, we had gross receivables from portfolio companies of $0.7 million and $0.9 million, respectively. The allowance for uncollectible receivables was $0.2 million as of December 31 and March 31, 2014, which is reflected in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities.*

NOTE 4. RELATED PARTY TRANSACTIONS

Investment Advisory and Management Agreement

In accordance with the Advisory Agreement, we pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee, loan servicing fee and an incentive fee. The Adviser is controlled by our chairman and chief executive officer. On July 15, 2014, our Board of Directors, including a majority of the directors who are not parties to the Advisory Agreement or interested persons of such party, approved the annual renewal of the Advisory Agreement through August 31, 2015.

The following table summarizes the base management fees, loan servicing fees, incentive fees and associated unconditional, non-contractual and irrevocable voluntary fee credits reflected in our accompanying *Condensed*

Consolidated Statements of Operations:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	**2013**	**2014**	**2013**
Average total assets subject to base management fee(A)	**$ 385,400**	$ 303,000	**$ 355,800**	$ 308,333
Multiplied by prorated annual base management fee of 2.0%	**0.5%**	0.5%	**1.5%**	1.5%
Base management fee(B)	**1,927**	1,515	**5,337**	4,625
Other credits to Adviser fees(B)	**(867)**	(782)	**(1,855)**	(1,627)
Net base management fee	**$ 1,060**	$ 733	**$ 3,482**	$ 2,998
Loan servicing fee(B)	**1,295**	1,089	**3,588**	3,230
Credit of loan servicing fee(B)	**(1,295)**	(1,089)	**(3,588)**	(3,230)
Net loan servicing fee	**$**	$	**$**	$
Incentive fee(B)	**$ 1,460**	$ 1,100	**$ 3,726**	$ 2,822

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

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

Base Management Fee

The base management fee is computed and payable quarterly and is assessed at an annual rate of 2.0%. It is computed on the basis of the value of our 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. As a BDC, we make available significant managerial assistance to our portfolio companies through the personnel of the Adviser. The Adviser may also provide other services to our portfolio companies under other agreements and may receive fees for services other than managerial assistance. 50.0% of certain of these fees and 100.0% of others historically have been voluntarily credited against the base management fee that we would otherwise be required to pay to the Adviser. Effective October 1, 2013, 100.0% of all these fees are voluntarily and irrevocably credited against the base management fee that we would otherwise be required to pay to the Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees, primarily for valuation of portfolio companies, is retained by the Adviser in the form of reimbursement at cost for certain tasks completed by personnel of the Adviser.

Loan Servicing Fee

In addition, the Adviser services, administers and collects on the loans held by Business Investment, in return for which our

Adviser receives a 2.0% annual loan servicing fee payable monthly by Business Investment based on the monthly aggregate balance of loans held by Business Investment in accordance with our revolving line of credit. All loan servicing fees are voluntarily and irrevocably credited back to us by the Adviser. Overall, the base management fee due to the Adviser (including any loan servicing fees) cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year.

Incentive Fee

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

no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate (7.0% annualized);

100.0% of our 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

20.0% of the amount of our 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-based 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 20.0% of our realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, we will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the aggregate net unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our 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 net 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-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate net unrealized capital depreciation, with respect to our portfolio of investments. If this number is positive at the end of such year, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. No capital gains-based incentive fee has been recorded since our inception through December 31, 2014, as cumulative net unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20.0% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that such unrealized capital appreciation will be realized in the

Table of Contents

future. No GAAP accrual for a capital gains-based incentive fee has been recorded since our inception through December 31, 2014.

Administration Agreement

The Administration Agreement provides for payments equal to our portion of the Administrator s expenses incurred while performing services to us, which are primarily rent and the salaries, benefits and expenses of the Administrator s employees, including, but not limited to, the chief financial officer and treasurer, chief compliance officer, and general counsel and secretary (who also serves as the Administrator s president). Prior to July 1, 2014, our portion of the expenses were generally derived by multiplying that portion of the Administrator s expenses allocable to all funds managed by the Adviser by the percentage of our total assets at the beginning of each quarter in comparison to the total assets at the beginning of each quarter of all funds managed by the Adviser.

Effective July 1, 2014, our portion of the Administrator s expenses are generally derived by multiplying the Administrator s total expenses by the approximate percentage of time during the current quarter the Administrator s employees performed services for us in relation to their time spent performing services for all companies serviced by the Administrator under contractual agreements. These administrative fees are accrued at the end of the quarter when the services are performed and recorded on our accompanying *Consolidated Statements of Operations* and generally paid the following quarter to the Administrator. On July 15, 2014, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2015.

Related Party Fees Due

Amounts due to related parties on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* were as follows:

	As of December 31, 2014	As of March 31 2014
Net base management fee due to Adviser	**$ 102**	$ 63
Net incentive fee due to Adviser	**1,460**	1,161
Other due to Adviser	**26**	1
Total fees due to Adviser, net of credits	**$ 1,588**	$ 1,225
Fee due to Administrator	**$ 226**	$ 224
Total related party fees due	**$ 1,814**	$ 1,449

In addition, other net co-investment expenses payable to Gladstone Capital (for reimbursement purposes) totaled $0 and $41 as of December 31 and March 31, 2014, respectively. These expenses were paid in full in the quarter subsequent to being incurred and have been included in other liabilities on the accompanying *Condensed Consolidated Statements of Assets and Liabilities* as of December 31 and March 31, 2014, respectively.

NOTE 5. BORROWINGS

Revolving Line of Credit

On June 26, 2014, we, through our wholly-owned subsidiary, Business Investment, entered into Amendment No. 1 to the Fifth Amended and Restated Credit Agreement originally entered into on April 30, 2013, with Key Equipment Finance, a division of KeyBank National Association (Key Equipment), as administrative agent, lead arranger and a lender, Branch Banking and Trust Company (BB&T) as a lender and managing agent, and the Adviser, as servicer, to extend the revolving period and reduce the interest rate of our revolving line of credit (our Credit Facility). The revolving period was extended 14 months to June 26, 2017, and if not renewed or extended by June 26, 2017, all principal and interest will be due and payable on or before June 26, 2019 (two years after the revolving period end date). In addition, we have retained the two one-year extension options, to be agreed upon by all parties, which may be exercised on or before June 26, 2015 and 2016, respectively, and upon exercise, the options would extend the revolving period to June 26, 2018 and 2019 and the maturity date to June 26, 2020 and 2021, respectively. Subject to certain terms and conditions, our Credit Facility can be expanded by up to $145.0 million, to a total facility amount of $250.0 million, through additional commitments of existing or new committed lenders. Advances under our Credit Facility generally bear interest at 30-day LIBOR, plus 3.25% per annum, down from 3.75% prior to the amendment, and our Credit Facility includes a fee of 0.50% on undrawn amounts. Once the revolving period ends, the interest rate margin increases to 3.75% for the period from June 26, 2017 to June 26, 2018, and further increases to 4.25% through maturity. We incurred fees of $0.4 million in connection with this amendment, which are being amortized through our Credit Facility s revolver period end date of June 26, 2017.

On September 19, 2014, we further increased our borrowing capacity under our Credit Facility from $105.0 million to $185.0 million by entering into Joinder Agreements pursuant to our Credit Facility, by and among Business Investment, Key Equipment, the Adviser and each of East West Bank, Manufacturers and Traders Trust, Customers Bank and Talmer Bank and Trust. We incurred fees of $1.3 million

Table of Contents

in connection with this expansion, which are being amortized through our Credit Facility s revolver period end date of June 26, 2017.

The following tables summarize noteworthy information related to our Credit Facility:

	As of December 31, 2014		As of March 31, 2014	
Commitment amount	**$**	**185,000**	$	105,000
Borrowings outstanding at cost		**95,800**		61,250
Availability		**32,926**		39,545

	For the Three Months Ended December 31,				For the Nine Months Ended December 31,			
	2014		2013		**2014**		2013	
Weighted average borrowings outstanding	**$**	**97,614**	$	19,460	**$**	**74,374**	$	31,174
Effective interest rate[(A)]		**3.9%**		6.3%		**4.0%**		5.1%
Commitment (unused) fees incurred	**$**	**113**	$	109	**$**	**234**	$	243

(A) Excludes the impact of deferred financing fees.

Interest is payable monthly during the term of our Credit Facility. Available borrowings are subject to various constraints imposed under our Credit Facility, based on the aggregate loan balance pledged by Business Investment, which varies as loans are added and repaid, regardless of whether such repayments are prepayments or made as contractually required.

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

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

Code. As of December 31, 2014, and as defined in the performance guaranty of our Credit Facility, we had a minimum net worth of $307.7 million, an asset coverage of 220.7% and an active status as a BDC and RIC. Our Credit Facility requires a minimum of 12 obligors in the borrowing base and, as of December 31, 2014, Business Investment had 26 obligors. As of December 31, 2014, we were in compliance with all covenants.

Pursuant to the terms of our Credit Facility, in July 2013, we entered into an interest rate cap agreement with KeyBank National Association that effectively limits the interest rate on a portion of our borrowings under our Credit Facility. The agreement, which expires April 2016, provides that the interest rate on $45.0 million of our borrowings is capped at 6.0%, plus 3.25% per annum, when 30-day LIBOR is in excess of 6.0%. We incurred a premium fee of $75 in conjunction with this agreement, which is recorded in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities.* As of December 31 and March 31, 2014, the fair value of our interest rate cap agreement was $0.

Secured Borrowing

In August 2012, we entered into a participation agreement with a third-party related to $5.0 million of our senior subordinated term debt investment in Ginsey Home Solutions, Inc. (Ginsey). In May 2014, we amended the agreement with the third-party to include an additional $0.1 million. Accounting Standards Codification Topic 860, *Transfers and Servicing* (ASC 860) requires us to treat the participation as a financing-type transaction. Specifically, the third-party has a senior claim to our remaining investment in the event of default by Ginsey which, in part, resulted in the loan participation bearing a rate of interest lower than the contractual rate established at origination. Therefore, our accompanying *Condensed Consolidated Statements of Assets and Liabilities* reflects the entire senior subordinated term debt investment in Ginsey and a corresponding $5.1 million secured borrowing liability. The secured borrowing has a stated interest rate of 7.0% and a maturity date of January 3, 2018.

Table of Contents

Fair Value

We elected to apply ASC 825, *Financial Instruments*, specifically for our Credit Facility, which was consistent with the application of ASC 820 to our investments. Generally, the Valuation Team estimates the fair value of our Credit Facility using a yield analysis, which includes a DCF calculation and also takes into account the Valuation Team s own assumptions, including, but not limited to, the estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. As of December 31 and March 31, 2014, the discount rate used to determine the fair value of our Credit Facility was 3.9% and 4.2%, respectively. Generally, an increase or decrease in the discount rate used in the DCF calculation, may result in a corresponding increase or decrease, respectively, in the fair value of our Credit Facility. As of December 31 and March 31, 2014, all of our borrowings were valued using Level 3 inputs and any changes in their fair values are recorded in net unrealized appreciation (depreciation) of other on our accompanying *Condensed Consolidated Statements of Operations*.

The following tables present the short-term loan, where applicable, and our Credit Facility carried at fair value as of December 31 and March 31, 2014, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and the changes in fair value during the three and nine months ended December 31, 2014 and 2013:

	Level 3 Borrowings Total Recurring Fair Value Measurement Reported in *Condensed Consolidated Statements of Assets and Liabilities*	
	December 31, 2014	**March 31, 2014**
Credit Facility	**$ 95,800**	$ 61,701

Fair Value Measurements of Borrowings Using Significant

Unobservable Inputs (Level 3)

	Credit Facility
Three months ended December 31, 2014:	
Fair value at September 30, 2014	$ 87,750
Borrowings	53,750
Repayments	(45,700)
Net unrealized appreciation[(A)]	
Fair value at December 31, 2014	**$ 95,800**
Nine months ended December 31, 2014:	
Fair value at March 31, 2014	$ 61,701
Borrowings	90,550

Repayments	(56,000)
Net unrealized depreciation[A]	(451)
Fair value at December 31, 2014	**$ 95,800**

Fair Value Measurements of Borrowings Using Significant

Unobservable Inputs (Level 3)

	Short-Term Loan	**Credit Facility**	**Total**
Three months ended December 31, 2013:			
Fair value at September 30, 2013	$ 22,005	$ 34,341	$ 56,346
Borrowings	8,501	37,000	45,501
Repayments	(22,005)	(34,800)	(56,805)
Net unrealized depreciation[A]		(341)	(341)
Fair value at December 31, 2013	**$ 8,501**	**$ 36,200**	**$ 44,701**
Nine months ended December 31, 2013:			
Fair value at March 31, 2013	$ 58,016	$ 31,854	$ 89,870
Borrowings	56,515	108,500	165,015
Repayments	(106,030)	(103,300)	(209,330)
Net unrealized depreciation[A]		(854)	(854)
Fair value at December 31, 2013	**$ 8,501**	**$ 36,200**	**$ 44,701**

(A) Included in net unrealized (depreciation) appreciation of other on our accompanying *Condensed Consolidated Statement of Operations* for the periods ended December 31, 2014 and 2013.

Table of Contents

The fair value of the collateral under our Credit Facility was $371.0 million and $288.6 million as of December 31 and March 31, 2014, respectively.

NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK

In November 2014, we completed a public offering of 1,656,000 shares of 6.75% Series B Cumulative Term Preferred Stock (our Series B Term Preferred Stock) at a public offering price of $25.00 per share. Gross proceeds totaled $41.4 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $39.7 million. We incurred $1.7 million in total offering costs related to these transactions, which have been recorded as deferred financing costs on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending December 31, 2021, the mandatory redemption date.

The shares of Series B Term Preferred Stock are traded under the ticker symbol GAINO on the NASDAQ Global Select Market (NASDAQ). Our Series B Term Preferred Stock is not convertible into our common stock or any other security. Our Series B Term Preferred Stock provides for a fixed dividend equal to 6.75% per year, payable monthly. We are required to redeem all shares of our outstanding Series B Term Preferred Stock on December 31, 2021, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, two other potential mandatory redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series B Term Preferred Stock, (2) if we fail to maintain an asset coverage ratio of at least 200%, we are required to redeem a portion of our outstanding Series B Term Preferred Stock or otherwise cure the ratio redemption trigger. We may also voluntarily redeem all or a portion of our Series B Term Preferred Stock at our sole option at the redemption price in order to have an asset coverage ratio of up to and including 215.0% and at any time on or after December 31, 2017.

In March 2012, we completed a public offering of 1,600,000 shares of 7.125% Series A Cumulative Term Preferred Stock (our Series A Term Preferred Stock) at a public offering price of $25.00 per share. Gross proceeds totaled $40.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were $38.0 million. We incurred $2.0 million in total offering costs related to these transactions, which have been recorded as deferred financing costs on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending February 28, 2017, the mandatory redemption period.

The shares of Series A Term Preferred Stock are traded under the ticker symbol GAINP on the NASDAQ. Our Series A Term Preferred Stock is not convertible into our common stock or any other security. Our Series A Term Preferred Stock provides for a fixed dividend equal to 7.125% per year, payable monthly. We are required to redeem all of our outstanding Series A Term Preferred Stock on February 28, 2017, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, three other potential redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series A Term Preferred Stock, (2) if we fail to maintain an asset coverage ratio of at least 200.0%, we are required to redeem a portion of our outstanding Series A Term Preferred Stock or otherwise cure the ratio redemption trigger and (3) at our sole option, at any time on or after February 28, 2016, we may redeem some or all of our Series A Term Preferred Stock.

For the nine months ended December 31, 2014 and 2013, our Board of Directors declared and we paid a monthly distribution of $0.1484375 per share, or $0.8906250 per share in aggregate, to holders of our Series A Term Preferred Stock. For the nine months ended December 31, 2014, our Board of Directors declared and we paid distributions for the pro-rated month of November 2014 (based on the number of days between the issuance date and November 30, 2014) and the full month of December 2014, that totaled $0.2250 per share to holders of our Series B Term Preferred

Stock. The tax character of distributions paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

In accordance with ASC 480, *Distinguishing Liabilities from Equity*, mandatorily redeemable financial instruments should be classified as liabilities on the balance sheet and, therefore, the related dividend payments are treated as dividend expense on our accompanying *Condensed Consolidated Statements of Operations* at the ex-dividend date. The fair value of our Series A Term Preferred Stock, which we consider to be a Level 1 liability within the fair value hierarchy, based on the last reported closing sale price as of December 31 and March 31, 2014, was $41.8 million and $42.4 million, respectively. The fair value of our Series B Term Preferred Stock, which we consider to be a Level 1 liability within the fair value hierarchy, based on the last reported closing sale price as of December 31, 2014, was $42.0 million.

NOTE 7. REGISTRATION STATEMENT

Registration Statement

Table of Contents

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

NOTE 8. NET INCREASE (DECREASE) 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 resulting from operations per weighted average common share for the three and nine months ended December 31, 2014 and 2013:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	**2014**	2013
Numerator for basic and diluted net increase (decrease) in net assets resulting from operations per common share	**$ 7,589**	$ (10,686)	**$ 21,056**	$ (2,266)
Denominator for basic and diluted weighted average common shares	**26,475,958**	26,475,958	**26,475,958**	26,475,958
Basic and diluted net increase (decrease) in net assets resulting from operations per average common share	**$ 0.29**	$ (0.40)	**$ 0.80**	$ (0.09)

NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS

To qualify to be taxed as a RIC under Subchapter M of the Code, we are required to distribute to our stockholders 90.0% of our investment company taxable income, which is generally our net ordinary income plus the excess of our net short-term capital gains over net long-term capital losses. The amount to be paid out as a distribution is determined by our Board of Directors each quarter and is based on management s estimate of our estimated taxable income. Based on that estimate, our Board of Directors declares three monthly distributions each quarter.

We paid the following monthly distributions to common stockholders for the nine months ended December 31, 2014 and 2013:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Common Share