

GLADSTONE INVESTMENT CORPORATION\DE

Form 10-Q

February 01, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**FOR THE QUARTER ENDED DECEMBER 31, 2011**

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

**COMMISSION FILE NUMBER: 000-51233**

**GLADSTONE INVESTMENT CORPORATION**

**(Exact name of registrant as specified in its charter)**

**DELAWARE**  
(State or other jurisdiction of

**83-0423116**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**1521 WESTBRANCH DRIVE, SUITE 200**

**MCLEAN, VIRGINIA 22102**

(Address of principal executive office)

**(703) 287-5800**

(Registrant's telephone number, including area code)

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  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.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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

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 January 30, 2012, was 22,080,133.

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	December 31, 2011	March 31, 2011
<b>ASSETS</b>		
Investments at fair value		
Control investments (Cost of <b>\$184,221</b> and \$136,306, respectively)	<b>\$ 156,345</b>	\$ 104,062
Affiliate investments (Cost of <b>\$69,739</b> and \$45,145, respectively)	<b>61,183</b>	34,556
Non-Control/Non-Affiliate investments (Cost of <b>\$9,664</b> and \$15,741, respectively)	<b>9,243</b>	14,667
Total investments (Cost of <b>\$263,624</b> and \$197,192, respectively)	<b>226,771</b>	153,285
Cash and cash equivalents	<b>86,470</b>	80,580
Restricted cash	<b>1,960</b>	4,499
Interest receivable	<b>1,142</b>	737
Due from custodian	<b>722</b>	859
Deferred financing fees	<b>953</b>	373
Prepaid assets	<b>297</b>	224
Other assets	<b>306</b>	552
<b>TOTAL ASSETS</b>	<b>\$ 318,621</b>	\$ 241,109
<b>LIABILITIES</b>		
Borrowings at fair value		
Short-term loan (Cost of <b>\$76,001</b> and \$40,000, respectively)	<b>\$ 76,001</b>	\$ 40,000
Credit Facility (Cost of <b>\$29,300</b> and \$0, respectively)	<b>29,300</b>	
Total borrowings (Cost of <b>\$105,301</b> and \$40,000, respectively)	<b>105,301</b>	40,000
Accounts payable and accrued expenses	<b>491</b>	201
Fees due to Adviser <sup>(A)</sup>	<b>187</b>	499
Fee due to Administrator <sup>(A)</sup>	<b>183</b>	171
Other liabilities	<b>858</b>	1,409
<b>TOTAL LIABILITIES</b>	<b>107,020</b>	42,280
<b>NET ASSETS</b>	<b>\$ 211,601</b>	\$ 198,829
<b>ANALYSIS OF NET ASSETS</b>		
Common stock, \$0.001 par value per share, 100,000,000 shares authorized, 22,080,133 shares issued and outstanding at December 31, 2011 and March 31, 2011	<b>\$ 22</b>	\$ 22
Capital in excess of par value	<b>257,192</b>	257,192
Cumulative net unrealized depreciation on investments	<b>(36,853)</b>	(43,907)
Cumulative net unrealized depreciation on other	<b>(56)</b>	(76)
Undistributed net investment income	<b>812</b>	165
Accumulated net realized losses	<b>(9,516)</b>	(14,567)

<b>TOTAL NET ASSETS</b>	<b>\$ 211,601</b>	<b>\$ 198,829</b>
<b>NET ASSET VALUE PER SHARE AT END OF PERIOD</b>	<b>\$ 9.58</b>	<b>\$ 9.00</b>

<sup>(A)</sup> 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 STATEMENTS OF OPERATIONS****(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)****(UNAUDITED)**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
<b>INVESTMENT INCOME</b>				
Interest income				
Control investments	\$ 3,515	\$ 2,557	\$ 9,075	\$ 7,701
Affiliate investments	1,226	970	3,958	3,031
Non-Control/Non-Affiliate investments	343	391	1,148	1,175
Cash and cash equivalents	1	7	7	21
<b>Total interest income</b>	<b>5,085</b>	<b>3,925</b>	<b>14,188</b>	<b>11,928</b>
Other income				
Control investments	25	6,812	1,201	10,358
Non-Control/Non-Affiliate investments	59		77	
<b>Total other income</b>	<b>84</b>	<b>6,812</b>	<b>1,278</b>	<b>10,358</b>
<b>Total investment income</b>	<b>5,169</b>	<b>10,737</b>	<b>15,466</b>	<b>22,286</b>
<b>EXPENSES</b>				
Loan servicing fee <sup>(A)</sup>	811	634	2,204	2,124
Base management fee <sup>(A)</sup>	329	343	1,008	846
Incentive fee <sup>(A)</sup>		1,898	19	2,949
Administration fee <sup>(A)</sup>	182	142	468	582
Interest expense	185	135	550	558
Amortization of deferred financing fees	106	116	321	383
Professional fees	139	84	453	306
Stockholder related costs	31	26	403	245
Other expenses	289	218	859	685
<b>Expenses before credits from Adviser</b>	<b>2,072</b>	<b>3,596</b>	<b>6,285</b>	<b>8,678</b>
Credits to fees from Adviser <sup>(A)</sup>	(345)	(450)	(1,071)	(630)
<b>Total expenses net of credits to fees</b>	<b>1,727</b>	<b>3,146</b>	<b>5,214</b>	<b>8,048</b>
<b>NET INVESTMENT INCOME</b>	<b>3,442</b>	<b>7,591</b>	<b>10,252</b>	<b>14,238</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS)</b>				
Net realized (loss) gain on investments	(105)	6,514	5,091	23,489
Net realized loss on other			(40)	
Net unrealized appreciation (depreciation) on investments	1,769	1,026	7,053	(24,063)
Net unrealized appreciation (depreciation) on other	389	4	21	(21)
<b>Net gain (loss) on investments and other</b>	<b>2,053</b>	<b>7,544</b>	<b>12,125</b>	<b>(595)</b>

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$	<b>5,495</b>	\$	15,135	\$	<b>22,377</b>	\$	13,643
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NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE

Basic and diluted	\$	<b>0.25</b>	\$	0.69	\$	<b>1.01</b>	\$	0.62
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WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING

Basic and diluted	<b>22,080,133</b>	22,080,133	<b>22,080,133</b>	22,080,133
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<sup>(A)</sup> Refer to Note 4 *Related Party Transactions* for additional information.

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

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**GLADSTONE INVESTMENT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended December 31,	
	2011	2010
<i>Operations:</i>		
Net investment income	\$ 10,252	\$ 14,238
Net realized gain on investments	5,091	23,489
Net realized loss on other	(40)	
Net unrealized appreciation (depreciation) on investments	7,053	(24,063)
Net unrealized appreciation (depreciation) on other	21	(21)
 Net increase in net assets from operations	 22,377	 13,643
 <i>Capital transactions:</i>		
Shelf offering registration costs, net		10
 <i>Distributions:</i>		
Distributions to stockholders	(9,605)	(7,949)
 Total increase in net assets	 12,772	 5,704
Net assets at beginning of period	198,829	192,978
 Net assets at end of period	 \$ 211,601	 \$ 198,682

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



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	<b>Nine Months Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase in net assets resulting from operations	\$ 22,377	\$ 13,643
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Purchase of investments	(86,327)	(41,616)
Principal repayments on investments	16,953	61,774
Proceeds from sales of investments	8,032	35,010
Net realized gain on investments	(5,091)	(23,489)
Net realized loss on other	40	
Net unrealized (appreciation) depreciation on investments	(7,053)	24,063
Net unrealized (appreciation) depreciation on other	(21)	21
Net amortization of premiums and discounts		6
Amortization of deferred financing fees	321	383
Decrease in restricted cash	2,539	
(Increase) decrease in interest receivable	(405)	486
Decrease (increase) in due from custodian	137	(39,354)
Decrease (increase) in other assets	183	(5,009)
Increase (decrease) in accounts payable and accrued expenses	290	(42)
(Decrease) increase in fees due to Adviser <sup>(A)</sup>	(312)	1,463
Increase (decrease) in administration fee payable to Administrator <sup>(A)</sup>	12	(6)
(Decrease) increase in other liabilities	(551)	1,038
<b>Net cash (used in) provided by operating activities</b>	<b>(48,876)</b>	<b>28,371</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shelf offering registration proceeds		10
Proceeds from short-term loans	178,502	167,400
Repayments on short-term loans	(142,501)	(175,000)
Proceeds from Credit Facility	52,700	24,000
Repayments on Credit Facility	(23,400)	(43,800)
Purchase of derivatives	(29)	(41)
Deferred financing fees	(901)	(745)
Distributions paid to stockholders	(9,605)	(7,949)
<b>Net cash provided by (used in) financing activities</b>	<b>54,766</b>	<b>(36,125)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,890</b>	<b>(7,754)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>80,580</b>	<b>87,717</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 86,470</b>	<b>\$ 79,963</b>
<b>NON-CASH ACTIVITIES<sup>(B)</sup></b>	<b>\$</b>	<b>\$ 515</b>

- (A) Refer to Note 4 *Related Party Transactions* for additional information.
- (B) Non-cash activities for the nine months ended December 31, 2010, represent real property distributed to shareholders of A. Stucki Holding Corp. prior to its sale in June 2010. This property is included in the Company's *Condensed Consolidated Schedule of Investments* under Neville Limited at March 31, 2011 and was sold during the three months ended December 31, 2011.
- THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.*

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**GLADSTONE INVESTMENT CORPORATION**  
**CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS**  
**DECEMBER 31, 2011**  
**(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)**  
**(UNAUDITED)**

Company <sup>(A)</sup>	Industry	Investment <sup>(B)</sup>	Principal	Cost	Fair Value	
<b>CONTROL INVESTMENTS:</b>						
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2015)	\$ 14,500	\$ 14,500	\$ 14,500	
		Preferred Stock (898,814 shares) <sup>(C)(F)</sup>		6,984	10,746	
		Common Stock (418,072 shares) <sup>(C)(F)</sup>			1,045	1,084
		Common Stock Warrants (452,683 shares) <sup>(C)(F)</sup>			25	332
				22,554	26,662	
ASH Holdings Corp.	Retail and Service school buses and parts	Revolving Credit Facility, \$342 available (3.0%, Due 3/2013) <sup>(G)</sup>	3,658	3,616		
		Senior Subordinated Term Debt (2.0%, Due 3/2013) <sup>(G)</sup>	6,250	6,060		
		Preferred Stock (4,644 shares) <sup>(C)(F)</sup>			2,500	
		Common Stock (1 share) <sup>(C)(F)</sup>				
		Common Stock Warrants (73,599 shares) <sup>(C)(F)</sup>				4
		Guaranty (\$750)				
				12,180		
Country Club Enterprises, LLC	Service golf cart distribution	Senior Subordinated Term Debt (14.0%, Due 11/2014) <sup>(G)</sup>	4,000	4,000		
		Preferred Stock (7,304,792 shares) <sup>(C)(F)</sup>			7,725	
		Guaranty (\$3,998)				
				11,725		
Galaxy Tool Holding Corp.	Manufacturing aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2013)	5,220	5,220	5,220	
		Preferred Stock (4,111,907 shares) <sup>(C)(F)</sup>			19,658	2,447
		Common Stock (48,093 shares) <sup>(C)(F)</sup>			48	
				24,926	7,667	
Mathey Investments, Inc.						

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	Manufacturing pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, \$1,750 available (10.0%, Due 3/2012)			
		Senior Term Debt (10.0%, Due 3/2013)	2,375	2,375	2,375
		Senior Term Debt (12.0%, Due 3/2014)	3,727	3,727	3,727
		Senior Term Debt (2.5%, Due 3/2014) <sup>(E)</sup>	3,500	3,500	3,500
		Common Stock (29,102 shares) <sup>(C)(F)</sup>		777	269
				10,379	9,871
Mitchell Rubber Products, Inc.	Manufacturing rubber compounds	Subordinated Term Debt (13.0%, Due 10/2016) <sup>(D)</sup>	13,560	13,560	13,645
		Preferred Stock (27,900 shares) <sup>(C)(F)</sup>		2,790	2,913
		Common Stock (27,900 shares) <sup>(C)(F)</sup>		28	1,142
				16,378	17,700
Precision Southeast, Inc.	Manufacturing injection molding and plastics	Revolving Credit Facility, \$251 available (7.5%, Due 02/2012)	749	749	749
		Senior Term Debt (14.0%, Due 12/2015)	7,775	7,775	7,775
		Preferred Stock (19,091 shares) <sup>(C)(F)</sup>		1,909	2,063
		Common Stock (90,909 shares) <sup>(C)(F)</sup>		91	289
				10,524	10,876
SBS, Industries, LLC	Manufacturing specialty fasteners and threaded screw products	Revolving Credit Facility, \$250 available (10.0%, Due 8/2013)	250	250	250
		Senior Term Debt (14.0%, Due 8/2016)	11,355	11,355	11,355
		Preferred Stock (19,935 shares) <sup>(C)(F)</sup>			