

GLADSTONE INVESTMENT CORPORATION\DE

Form 10-Q

July 29, 2013

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 QUARTERLY PERIOD ENDED JUNE 30, 2013

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

COMMISSION FILE NUMBER: 814-00704

GLADSTONE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: GLADSTONE INVESTMENT CORPORATION\DE - Form 10-Q

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 July 26, 2013, was 26,475,958.

GLADSTONE INVESTMENT CORPORATION

TABLE OF CONTENTS

PART I.	FINANCIAL INFORMATION:	
Item 1.	<u>Financial Statements (Unaudited)</u>	
	<u>Condensed Consolidated Statements of Assets and Liabilities as of June 30, 2013 and March 31, 2013</u>	3
	<u>Condensed Consolidated Statements of Operations for the three months ended June 30, 2013 and 2012</u>	4
	<u>Condensed Consolidated Statements of Changes in Net Assets for the three months ended June 30, 2013 and 2012</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2013 and 2012</u>	6
	<u>Condensed Consolidated Schedules of Investments as of June 30, 2013 and March 31, 2013</u>	7
	<u>Notes to Condensed Consolidated Financial Statements</u>	13
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
	<u>Overview</u>	29
	<u>Results of Operations</u>	33
	<u>Liquidity and Capital Resources</u>	37
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
Item 4.	<u>Controls and Procedures</u>	46
PART II.	OTHER INFORMATION:	
Item 1.	<u>Legal Proceedings</u>	46
Item 1A.	<u>Risk Factors</u>	46
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 3.	<u>Defaults Upon Senior Securities</u>	47
Item 4.	<u>Mine Safety Disclosures</u>	47
Item 5.	<u>Other Information</u>	47
Item 6.	<u>Exhibits</u>	47
	<u>SIGNATURES</u>	48

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	June 30, 2013	March 31, 2013
ASSETS		
Investments at fair value		
Control investments (Cost of \$289,472 and \$263,522, respectively)	\$ 260,479	\$ 243,803
Affiliate investments (Cost of \$51,116 and \$52,566, respectively)	36,087	36,659
Non-Control/Non-Affiliate investments (Cost of \$19,084 and \$10,333, respectively)	11,761	6,020
Total investments at fair value (Cost of \$359,672 and \$326,421, respectively)	308,327	286,482
Cash and cash equivalents	36,498	85,904
Restricted cash	626	626
Interest receivable	1,669	1,309
Due from custodian	1,678	1,677
Deferred financing costs	3,131	2,336
Other assets	1,018	1,469
TOTAL ASSETS	\$ 352,947	\$ 379,803
LIABILITIES		
Borrowings:		
Short-term loan at fair value (Cost of \$26,009 and \$58,016, respectively)	\$ 26,009	\$ 58,016
Line of credit at fair value (Cost of \$49,000 and \$31,000, respectively)	49,000	31,854
Secured borrowing (Cost of \$5,000 and \$5,000, respectively)	5,000	5,000
Total borrowings (Cost of \$80,009 and \$94,016, respectively)	80,009	94,870
Mandatorily redeemable preferred stock, \$0.001 par value per share, \$25 liquidation preference per share; 1,610,000 shares authorized, 1,600,000 shares issued and outstanding at June 30 and March 31, 2013	40,000	40,000
Accounts payable and accrued expenses	1,219	1,069
Fees due to Adviser ^(A)	447	2,067
Fee due to Administrator ^(A)	243	221
Other liabilities	557	613
TOTAL LIABILITIES	122,475	138,840
Commitments and contingencies ^(B)		
NET ASSETS	\$ 230,472	\$ 240,963
ANALYSIS OF NET ASSETS		
Common stock, \$0.001 par value per share, 100,000,000 shares authorized and 26,475,958 shares issued and outstanding at June 30 and March 31, 2013, respectively	\$ 26	\$ 26
Capital in excess of par value	287,713	287,713
Cumulative net unrealized depreciation of investments	(51,345)	(39,939)
Cumulative net unrealized depreciation of other	(29)	(883)
Net investment income in excess of distributions	2,752	2,691
Accumulated net realized loss	(8,645)	(8,645)
TOTAL NET ASSETS	\$ 230,472	\$ 240,963

NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD **\$ 8.70** \$ 9.10

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

^(B) Refer to Note 11 *Commitments and Contingencies* for additional information.

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended June 30,	
	2013	2012
INVESTMENT INCOME		
Interest income		
Control investments	\$ 5,637	\$ 3,430
Affiliate investments	1,108	1,771
Non-Control/Non-Affiliate investments	436	308
Cash and cash equivalents	1	2
Total interest income	7,182	5,511
Other income		
Control investments	216	394
Total investment income	7,398	5,905
EXPENSES		
Base management fee ^(A)	1,549	1,191
Incentive fee ^(A)	165	
Administration fee ^(A)	243	183
Interest expense on borrowings	477	92
Dividends on mandatorily redeemable preferred stock	713	713
Amortization of deferred financing fees	244	200
Professional fees	120	194
Other general and administrative expenses	365	278
Expenses before credits from Adviser	3,876	2,851
Credits to fees ^(A)	(511)	(184)
Total expenses net of credits to fees	3,365	2,667
NET INVESTMENT INCOME	\$ 4,033	\$ 3,238
REALIZED AND UNREALIZED LOSS		
Net realized loss:		
Control investments		(46)
Other		(41)
Total net realized loss		(87)
Net unrealized (depreciation) appreciation:		
Control investments	(9,274)	2,354
Affiliate investments	878	(7,712)
Non-Control/Non-Affiliate investments	(3,010)	(359)
Other	854	(451)
Total net unrealized (depreciation) appreciation	(10,552)	(6,168)
Net realized and unrealized loss	(10,552)	(6,255)

Edgar Filing: GLADSTONE INVESTMENT CORPORATION\DE - Form 10-Q

NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ (6,519)	\$ (3,017)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE		
Basic and diluted	\$ (0.25)	\$ (0.13)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:		
Basic and diluted	26,475,958	22,080,133

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

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

(UNAUDITED)

	Three Months Ended June 30,	
	2013	2012
OPERATIONS:		
Net investment income	\$ 4,033	\$ 3,238
Net realized loss on investments		(46)
Net realized loss on other		(41)
Net unrealized depreciation of investments	(11,406)	(5,717)
Net unrealized appreciation (depreciation) of other	854	(451)
Net decrease in net assets from operations	(6,519)	(3,017)
DISTRIBUTIONS TO COMMON STOCKHOLDERS:		
	(3,972)	(3,312)
Total decrease in net assets	(10,491)	(6,329)
Net assets at beginning of period	240,963	207,216
Net assets at end of period	\$ 230,472	\$ 200,887

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Three Months Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net decrease in net assets resulting from operations	\$ (6,519)	\$ (3,017)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(35,590)	(12,765)
Principal repayments of investments	2,340	2,930
Proceeds from the sale of investments		(46)
Increase in investment balance due to paid in kind interest	(1)	
Net realized gain on investments		46
Net realized loss on other		41
Net unrealized depreciation of investments	11,406	5,717
Net unrealized (depreciation) appreciation of other	(854)	451
Amortization of deferred financing costs	244	200
Decrease in restricted cash		616
(Increase) decrease in interest receivable	(360)	269
Increase in due from custodian	(1)	(36)
Decrease (increase) in other assets	451	(106)
Increase in accounts payable and accrued expenses	89	229
Decrease in fees due to Adviser ^(A)	(1,620)	(143)
Increase (decrease) in fee due to Administrator ^(A)	22	(35)
Decrease in other liabilities	(56)	(52)
Net cash used in operating activities	(30,449)	(5,701)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	26,009	76,010
Repayments on short-term loans	(58,016)	(76,005)
Proceeds from Credit Facility	28,500	31,000
Repayments on Credit Facility	(10,500)	
Deferred financing costs	(978)	(107)
Distributions paid to common stockholders	(3,972)	(3,312)
Net cash (used in) provided by financing activities	(18,957)	27,586
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(49,406)	21,885
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	85,904	91,546
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 36,498	\$ 113,431

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

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2013

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
CONTROL INVESTMENTS:					
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2015) Preferred Stock (898,814 shares) ^{(C)(F)} Common Stock (418,072 shares) ^{(C)(F)} Common Stock Warrants (465,639 shares) ^{(C)(F)}	\$ 14,500	\$ 14,500 6,984 1,045 25	\$ 14,500 11,539 867
				22,554	26,906
ASH Holdings Corp.	Retail and Service school buses and parts	Revolving Credit Facility, \$288 available (3.0%, Due 3/2015) ^(G) Senior Subordinated Term Debt (2.0%, Due 3/2015) ^(G) Preferred Stock (4,644 shares) ^{(C)(F)} Common Stock (1 share) ^{(C)(F)} Common Stock Warrants (73,599 shares) ^{(C)(F)} Guaranty (\$500)	7,912 6,250	7,856 6,050 2,500 4	
				16,410	
Country Club Enterprises, LLC	Service golf cart distribution	Senior Subordinated Term Debt (18.6%, Due 11/2014) Preferred Stock (7,304,792 shares) ^{(C)(F)} Guaranty (\$2,000) Guaranty (\$1,269)	4,000	4,000 7,725	4,000 3,486
				11,725	7,486
Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility, \$282 available (4.0%, Due 8/2015) ^(D) Senior Term Debt (4.0%, Due 8/2015) ^(D) Senior Term Debt (4.0%, Due 8/2015) ^(D) Senior Term Debt (5.0%, Due 8/2015) ^{(D)(E)} Preferred Stock (25 shares) ^{(C)(F)} Common Stock Warrants (420 shares) ^{(C)(F)}	2,868 2,575 8,795 1,150	2,868 2,575 8,795 1,150 2,500 3	674 605 2,067 270
				17,891	3,616
Drew Foam Company, Inc.	Manufacturing molds and fabricates expanded polystyrene	Senior Term Debt (13.5%, Due 8/2017) Preferred Stock (34,045 shares) ^{(C)(F)}	10,913	10,913 3,375	10,913 3,020

Edgar Filing: GLADSTONE INVESTMENT CORPORATION/DE - Form 10-Q

Common Stock (5,372 shares)^{(C)(F)} 63

					14,351	13,933
Frontier Packaging, Inc.	Manufacturing	packaging products	Senior Term Debt (12%, Due 12/2017)	12,500	12,500	12,500
			Preferred Stock (1,373 shares) ^{(C)(F)}		1,373	1,436
			Common Stock (152 shares) ^{(C)(F)}		153	311
					14,026	14,247
Galaxy Tool Holding Corp.	Manufacturing	aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2017)	15,520	15,520	15,520
			Preferred Stock (5,373,186 shares) ^{(C)(F)}		11,464	8,615
			Common Stock (48,093 shares) ^{(C)(F)}		48	
					27,032	24,135
Ginsey Home Solutions, Inc.	Retail and Service	children and home products	Senior Subordinate Term Debt (13.5%, Due 1/2018)	13,050	13,050	13,050
			Preferred Stock (18,898 shares) ^{(C)(F)}		9,393	5,081
			Common Stock (63,747 shares) ^{(C)(F)}		8	
					22,451	18,131
Jackrabbit, Inc.	Manufacturing	agricultural machinery	Revolving Credit Facility, \$1,500 available (13.5% , Due 4/2014) ^(H)	1,500	1,500	1,500
			Senior Term Debt (13.5%, Due 4/2018) ^(H)	11,000	11,000	11,000
			Preferred Stock (3,556 shares) ^{(C)(F)(H)}		3,556	3,556
			Common Stock (636 shares) ^{(C)(F)(H)}		94	94
					16,150	16,150
Mathey Investments, Inc.	Manufacturing	pipe-cutting and pipe-fitting equipment	Senior Term Debt (10.0%, Due 3/2014)	1,375	1,375	1,375
			Senior Term Debt (12.0%, Due 3/2014)	3,727	3,727	3,727
			Senior Term Debt (12.5%, Due 3/2014) ^(E)	3,500	3,500	3,500
			Common Stock (29,102 shares) ^{(C)(F)}		777	5,681
					9,379	14,283
Mitchell Rubber Products, Inc.	Manufacturing	rubber compounds	Subordinated Term Debt (13.0%, Due 10/2016) ^(D)	13,560	13,560	13,577
			Preferred Stock (27,900 shares) ^{(C)(F)}		2,790	2,228
			Common Stock (27,900 shares) ^{(C)(F)}		28	
					16,378	15,805

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2013

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
Precision Southeast, Inc.	Manufacturing injection molding and plastics	Senior Term Debt (14.0%, Due 12/2015)	\$ 7,775	\$ 7,775	\$ 7,775
		Preferred Stock (19,091 shares) ^{(C)(F)}		1,909	2,013
		Common Stock (90,909 shares) ^{(C)(F)}		91	
				9,775	9,788
SBS, Industries, LLC	Manufacturing specialty fasteners and threaded screw products	Senior Term Debt (14.0%, Due 8/2016)	11,355	11,355	11,355
		Preferred Stock (19,935 shares) ^{(C)(F)}		1,994	2,296
		Common Stock (221,500 shares) ^{(C)(F)}		221	4,074
				13,570	17,725
SOG Specialty K&T, LLC	Manufacturing specialty knives and tools	Senior Term Debt (13.3%, Due 8/2016)	6,200	6,200	6,200
		Senior Term Debt (14.8%, Due 8/2016)	12,199	12,199	12,199
		Preferred Stock (9,749 shares) ^{(C)(F)}		9,749	8,500
				28,148	26,899
Star Seed, Inc.	Farming and Agriculture	Senior Term Debt (12.5%, Due 4/2018) ^(H)	7,500	7,500	7,500
		Preferred Stock (1,499 shares) ^{(C)(F)(H)}		1,499	1,499
		Common Stock (600 shares) ^{(C)(F)(H)}		1	1
				9,000	9,000
Tread Corp.	Manufacturing storage and transport equipment	Revolving Credit Facility, \$714 available (12.5%, Due 6/2014) ^(G)	2,535	2,535	
		Senior Subordinated Term Debt (12.5%, Due 2/2015) ^(G)	5,000	5,000	
		Senior Subordinated Term Debt (12.5%, Due 2/2015) ^(G)	2,750	2,750	
		Senior Subordinated Term Debt (12.5%, Due 2/2015) ^(G)	1,000	1,000	
		Senior Subordinated Term Debt (12.5%, Due on Demand) ^{(D)(G)}	510	510	
		Preferred Stock (3,332,765 shares) ^{(C)(F)}		3,333	
		Common Stock (7,716,320 shares) ^{(C)(F)}		501	
		Common Stock Warrants (2,372,727 shares) ^{(C)(F)}		3	
				15,632	

Edgar Filing: GLADSTONE INVESTMENT CORPORATION/DE - Form 10-Q

Venya Solutions, Inc.	Service	online servicing suite	Senior Subordinated Term Debt (11.3%, Due 10/2015)	7,000	7,000	7,000
			Senior Subordinated Term Debt (14.0%, Due 10/2015)	12,000	12,000	12,000
			Preferred Stock (5,400 shares) ^{(C)(F)}		6,000	23,375
					25,000	42,375

Total Control Investments (represents 84.5% of total investments at fair value) \$ 289,472 \$ 260,479

AFFILIATE INVESTMENTS:

Cavert II Holding Corp.	Manufacturing	bailing wire	Senior Subordinated Term Debt (11.8%, Due 4/2016) ^(D)	2,000	2,000	2,045
			Subordinated Term Debt (13.0%, Due 4/2016) ^(D)	4,671	4,671	4,776
			Preferred Stock (18,446 shares) ^{(C)(F)}		1,844	2,853
					8,515	9,674

Channel Technologies Group, LLC	Manufacturing	acoustic products	Senior Term Debt (9.0%, Due 12/2014) ^(D)	5,596	5,596	5,540
			Senior Term Debt (12.3%, Due 12/2016) ^(D)	10,750	10,750	10,643
			Preferred Stock (1,599 shares) ^{(C)(F)}		1,599	197
			Common Stock (1,598,616 shares) ^{(C)(F)}			
					17,945	16,380

Noble Logistics, Inc.	Service delivery	aftermarket auto parts	Revolving Credit Facility, \$0 available			
			(10.5%, Due 1/2015) ^(D)	800	800	336
			Senior Term Debt (11.0%, Due 1/2015) ^(D)	7,227	7,227	3,035
			Senior Term Debt (10.5%, Due 1/2015) ^(D)	3,650	3,650	1,533
			Senior Term Debt (10.5%, Due 1/2015) ^{(D)(E)}	3,650	3,650	1,533
			Preferred Stock (1,075,000 shares) ^{(C)(F)}		1,750	
			Common Stock (1,682,444 shares) ^{(C)(F)}		1,682	
					18,759	6,437

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2013

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
Packerland Whey Products, Inc.	Manufacturing dairy, meat, and protein supplements	Preferred Stock (248 shares) ^{(C)(F)}		\$ 2,479	\$ 309
		Common Stock (247 shares) ^{(C)(F)}		21	
				2,500	309
Quench Holdings Corp.	Service sales, installation and service of water coolers	Preferred Stock (388 shares) ^{(C)(F)}		2,950	3,287
		Common Stock (35,242 shares) ^{(C)(F)}		447	
				3,397	3,287
Total Affiliate Investments (represents 11.7% of total investments at fair value)				\$ 51,116	\$ 36,087
NON-CONTROL/NON-AFFILIATE INVESTMENTS:					
B-Dry, LLC	Service basement waterproofer	Revolving Credit Facility, \$0 available (6.5%, Due 5/2014) ^(D)	\$ 750	\$ 750	\$ 225
		Senior Term Debt (14.0%, Due 5/2014) ^(D)	6,433	6,443	1,933
		Senior Term Debt (14.0%, Due 5/2014) ^(D)	2,840	2,840	852
		Common Stock Warrants (85 shares) ^{(C)(F)}		300	
				10,333	3,010
Funko, LLC	Personal and Non-Durable Consumer Products	Senior Subordinated Term Debt (12.0% and 1.5% PIK, Due 5/2019) ^(H)	7,501	7,501	7,501
		Preferred Stock (1,250 shares) ^{(C)(F)(H)}		1,250	1,250
				8,751	8,751
Total Non-Control/Non-Affiliate Investments (represents 3.8% of total investments at fair value)				\$ 19,084	\$ 11,761
TOTAL INVESTMENTS				\$ 359,672	\$ 308,327

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

(B) Percentages represent the weighted average interest rates in effect as of June 30, 2013, and due date represents the contractual maturity date.

(C) Security is non-income producing.

(D) Fair value based primarily on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc. as of June 30, 2013.

(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 and before the senior subordinated debt.

(F)

Edgar Filing: GLADSTONE INVESTMENT CORPORATION\DE - Form 10-Q

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) New proprietary portfolio investment valued at cost, as it was determined that the price paid during the three months ended June 30, 2013, best represents fair value as of June 30, 2013.

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

MARCH 31, 2013

(DOLLAR AMOUNTS IN THOUSANDS)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
CONTROL INVESTMENTS:					
Acme Cryogenics, Inc.	Manufacturing manifolds and pipes for industrial gasses	Senior Subordinated Term Debt (11.5%, Due 3/2015) Preferred Stock (898,814 shares) ^(F) Common Stock (418,072 shares) ^{(C)(F)} Common Stock Warrants (465,639 shares) ^{(C)(F)}	\$ 14,500	\$ 14,500 6,984 1,045 25	\$ 14,500 11,292 1,179 369
				22,554	27,340
ASH Holdings Corp.	Retail and Service school buses and parts	Revolving Credit Facility, \$288 available (3.0%, Due 3/2015) ^(G) Senior Subordinated Term Debt (2.0%, Due 3/2015) ^(G) Preferred Stock (4,644 shares) ^{(C)(F)} Common Stock (1 share) ^{(C)(F)} Common Stock Warrants (73,599 shares) ^{(C)(F)} Guaranty (\$500)	7,912 6,250	7,856 6,050 2,500 4	
				16,410	
Country Club Enterprises, LLC	Service golf cart distribution	Senior Subordinated Term Debt (18.6%, Due 11/2014) Preferred Stock (7,304,792 shares) ^{(C)(F)} Guaranty (\$2,000) Guaranty (\$1,370)	4,000	4,000 7,725	4,000 3,467
				11,725	7,467
Danco Acquisition Corp.	Manufacturing machining and sheet metal work	Revolving Credit Facility, \$282 available (4.0%, Due 8/2015) ^(D) Senior Term Debt (4.0%, Due 8/2015) ^(D) Senior Term Debt (4.0%, Due 8/2015) ^(D) Senior Term Debt (5.0%, Due 8/2015) ^{(D)(E)} Preferred Stock (25 shares) ^{(C)(F)} Common Stock Warrants (420 shares) ^{(C)(F)}	2,868 2,575 8,795 1,150	2,868 2,575 8,795 1,150 2,500	717 644 2,199 287
				3	
				17,891	3,847
Drew Foam Company, Inc.	Manufacturing molds and fabricates expanded polystyrene	Senior Term Debt (13.5%, Due 8/2017) Preferred Stock (34,045 shares) ^(F) Common Stock (5,372 shares) ^{(C)(F)}	10,913	10,913 3,375 63	10,913 3,511 676

Edgar Filing: GLADSTONE INVESTMENT CORPORATION/DE - Form 10-Q

					14,351	15,100
Frontier Packaging, Inc.	Manufacturing	packaging products	Senior Term Debt (12%, Due 12/2017)	12,500	12,500	12,500
			Preferred Stock (1,373 shares) ^{(C)(F)}		1,373	653
			Common Stock (152 shares) ^{(C)(F)}		153	
					14,026	13,153
Galaxy Tool Holding Corp.	Manufacturing	aerospace and service of water coolers plastics	Senior Subordinated Term Debt (13.5%, Due 8/2017)	15,520	15,520	15,520
			Preferred Stock (5,373,186 shares) ^(F)		11,464	5,356
			Common Stock (48,093 shares) ^{(C)(F)}		48	
					27,032	20,876
Ginsey Home Solutions, Inc.	Retail and Service	children and home products	Senior Subordinate Term Debt (13.5%, Due 1/2018)	13,050	13,050	13,050
			Preferred Stock (18,898 shares) ^{(C)(F)}		9,393	8,783
			Common Stock (63,747 shares) ^{(C)(F)}		8	
					22,451	21,833
Mathey Investments, Inc.	Manufacturing	pipe-cutting and pipe-fitting equipment	Senior Term Debt (10.0%, Due 3/2014)	1,375	1,375	1,375
			Senior Term Debt (12.0%, Due 3/2014)	3,727	3,727	3,727
			Senior Term Debt (12.5%, Due 3/2014) ^(E)	3,500	3,500	3,500
			Common Stock (29,102 shares) ^{(C)(F)}		777	5,817
					9,379	14,419
Mitchell Rubber Products, Inc.	Manufacturing	rubber compounds	Subordinated Term Debt (13.0%, Due 10/2016) ^(D)	13,560	13,560	13,679
			Preferred Stock (27,900 shares) ^{(C)(F)}		2,790	3,051
			Common Stock (27,900 shares) ^{(C)(F)}		28	
					16,378	16,730
Precision Southeast, Inc.	Manufacturing	injection molding and plastics	Senior Term Debt (14.0%, Due 12/2015)	7,775	7,775	7,775
			Preferred Stock (19,091 shares) ^{(C)(F)}		1,909	2,273
			Common Stock (90,909 shares) ^{(C)(F)}		91	955
					9,775	11,003

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

MARCH 31, 2013

(DOLLAR AMOUNTS IN THOUSANDS)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value
SBS, Industries, LLC	Manufacturing specialty fasteners and threaded screw products	Senior Term Debt (14.0%, Due 8/2016)	\$ 11,355	\$ 11,355	\$ 11,355
		Preferred Stock (19,935 shares) ^{(C)(F)}		1,994	2,253
		Common Stock (221,500 shares) ^{(C)(F)}		221	4,635
				13,570	18,243
SOG Specialty K&T, LLC	Manufacturing specialty knives and tools	Senior Term Debt (13.3%, Due 8/2016)	6,200	6,200	6,200
		Senior Term Debt (14.8%, Due 8/2016)	12,199	12,199	12,199
		Preferred Stock (9,749 shares) ^{(C)(F)}		9,749	11,423
				28,148	29,822
Tread Corp.	Manufacturing storage and transport equipment	Revolving Credit Facility, \$1,014 available (12.5%, Due 6/2013) ^(G)	1,736	1,736	
		Senior Subordinated Term Debt (12.5%, Due 5/2013) ^(G)	5,000	5,000	
		Senior Subordinated Term Debt (12.5%, Due 5/2013) ^(G)	2,750	2,750	
		Senior Subordinated Term Debt (12.5%, Due 5/2015) ^(G)	1,000	1,000	
		Senior Subordinated Term Debt (12.5%, Due on Demand) ^{(D)(G)}	510	510	
		Preferred Stock (3,332,765 shares) ^{(C)(F)}		3,333	
		Common Stock (7,716,320 shares) ^{(C)(F)}		501	
		Common Stock Warrants (2,372,727 shares) ^{(C)(F)}		3	
		14,833			
Venyu Solutions, Inc.	Service online servicing suite	Senior Subordinated Term Debt (11.3%, Due 10/2015)	7,000	7,000	7,000
		Senior Subordinated Term Debt (14.0%, Due 10/2015)	12,000	12,000	12,000
		Preferred Stock (5,400 shares) ^{(C)(F)}		6,000	24,970
				25,000	43,970
Total Control Investments (represents 85.1% of total investments at fair value)				\$ 263,522	\$ 243,803

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

MARCH 31, 2013

(DOLLAR AMOUNTS IN THOUSANDS)

Company ^(A)	Industry	Investment ^(B)	Principal	Cost	Fair Value	
AFFILIATE INVESTMENTS:						
Cavert II Holding Corp.	Manufacturing	bailing wire	Senior Subordinated Term Debt (11.8%, Due 4/2016) ^(D)	\$ 2,200	\$ 2,200	\$ 2,258
			Subordinated Term Debt (13.0%, Due 4/2016) ^(D)	4,671	4,671	4,805
			Preferred Stock (18,446 shares) ^{(C)(F)}		1,844	2,803
					8,715	9,866
Channel Technologies Group, LLC	Manufacturing	acoustic products	Revolving Credit Facility, \$0 available			
			(7.0%, Due 5/2013) ^(D)	1,250	1,250	1,248
			Senior Term Debt (8.3%, Due 12/2014) ^(D)	5,596	5,596	5,589
			Senior Term Debt (12.3%, Due 12/2016) ^(D)	10,750	10,750	10,737
			Preferred Stock (1,599 shares) ^{(C)(F)}		1,599	275
			Common Stock (1,598,616 shares) ^{(C)(F)}			
				19,195	17,849	
Noble Logistics, Inc.	Service delivery	aftermarket auto parts	Revolving Credit Facility, \$0 available			
			(10.5%, Due 1/2015) ^(D)	800	800	360
			Senior Term Debt (11.0%, Due 1/2015) ^(D)	7,227	7,227	3,252
			Senior Term Debt (10.5%, Due 1/2015) ^(D)	3,650	3,650	1,643
			Senior Term Debt (10.5%, Due 1/2015) ^{(D)(E)}	3,650	3,650	1,643
			Preferred Stock (1,075,000 shares) ^{(C)(F)}		1,750	
			Common Stock (1,682,444 shares) ^{(C)(F)}		1,682	
				18,759	6,898	
Packerland Whey Products, Inc.	Manufacturing	dairy, meat, and protein supplements	Preferred Stock (248 shares) ^{(C)(F)}		2,479	367
			Common Stock (247 shares) ^{(C)(F)}		21	
					2,500	367
Quench Holdings Corp.	Service	sales, installation and service of water coolers	Preferred Stock (388 shares) ^{(C)(F)}		2,950	1,679
			Common Stock (35,242 shares) ^{(C)(F)}		447	
					3,397	1,679

Edgar Filing: GLADSTONE INVESTMENT CORPORATION/DE - Form 10-Q

Total Affiliate Investments (represents 12.8% of total investments at fair value) \$ 52,566 \$ 36,659

NON-CONTROL/NON-AFFILIATE INVESTMENTS:

B-Dry, LLC	Service basement waterproofer	Revolving Credit Facility, \$ available (6.5%, Due 5/2014) ^(D)	\$ 750	\$ 750	\$ 450
		Senior Term Debt (14.0%, Due 5/2014) ^(D)	6,433	6,443	3,866
		Senior Term Debt (14.0%, Due 5/2014) ^(D)	2,840	2,840	1,704
		Common Stock Warrants (85 shares) ^{(C)(F)}		300	
				10,333	6,020

Total Non-Control/Non-Affiliate Investments (represents 2.1% of total investments at fair value) \$ 10,333 \$ 6,020

TOTAL INVESTMENTS^(H) \$ 326,421 \$ 286,482

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

(B) Percentages represent the weighted average interest rates in effect as of March 31, 2013, and due date represents the contractual maturity date.

(C) Security is non-income producing.

(D) Fair value based primarily on opinions of value submitted by Standard & Poor's Securities Evaluations, Inc. as of March 31, 2013.

(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 and before the senior subordinated debt.

(F) 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) Aggregate gross unrealized depreciation for federal income tax purposes is \$78,959; aggregate gross unrealized appreciation for federal income tax purposes is \$38,650. Net unrealized depreciation is \$40,309 based on a tax cost of \$326,792.

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

GLADSTONE INVESTMENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

(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. To a much lesser extent, we also invest in senior and subordinated syndicated loans. 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 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 consisting of approximately 80% debt investments and 20% 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 line of credit. The financial statements of Business Investment are consolidated with those of Gladstone Investment.

We are externally managed by Gladstone Management Corporation (the Adviser), an affiliate of ours and a Securities and Exchange Commission (SEC) registered investment adviser, pursuant to an investment advisory agreement and management 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 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 months ended June 30, 2013, 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, 2013, as filed with the SEC on May 14, 2013.

Our fiscal year-end *Condensed Consolidated Statement of Assets and Liabilities* presented in this Form 10-Q was derived from audited financial statements, but does not include all disclosures required by GAAP.

Investment Valuation Policy

We carry our investments at fair value to the extent that market quotations are readily available and reliable and otherwise at fair value as determined in good faith by our board of directors (the Board of Directors). In determining the fair value of our investments, the Adviser has established an investment valuation policy (the Policy). The Policy has been approved by our Board of Directors, and each quarter, our Board of Directors reviews the Policy to determine if changes thereto are advisable and also reviews whether the Adviser has applied the Policy

consistently and votes whether to accept the recommended valuation of our investment portfolio. Such determination of fair values may involve subjective judgments and estimates.

The Adviser uses generally accepted valuation techniques to value our portfolio unless it has specific information about the value of an investment to determine otherwise. From time to time, the Adviser may accept an appraisal of a business in which we hold securities. These appraisals are expensive and occur infrequently but provide a third-party valuation opinion that may differ in results, techniques and scope used to value our investments. When the Adviser obtains these specific, third-party appraisals, the Adviser uses estimates of value provided by such appraisals and its own assumptions, including estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date, to value our investments.

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

Publicly-traded securities: The Adviser determines the value of publicly-traded securities based on the closing price for the security on the exchange or securities market on which it is listed and primarily traded on the valuation date. To the extent that we own restricted securities that are not freely tradable, but for which a public market otherwise exists, the Adviser will use the market value of that security, adjusted for any decrease in value resulting from the restrictive feature. As of June 30 and March 31, 2013, we did not have any investments in publicly traded securities.

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

In the event these limited markets become illiquid such that market prices are no longer readily available, the Adviser will value our syndicated loans using alternative methods, such as estimated net present values of the future cash flows, or discounted cash flows (DCF). The use of a DCF methodology follows that prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, which provides guidance on the use of a reporting entity's own assumptions about future cash flows and risk-adjusted discount rates when relevant, observable inputs, such as quotes in active markets, are not available. When relevant, observable market data does not exist, an alternative outlined in ASC 820 is the valuation of investments based on DCF. For the purposes of using DCF to provide fair value estimates, the Adviser considers multiple inputs, such as a risk-adjusted discount rate that incorporates adjustments that market participants would make, both for nonperformance and liquidity risks. As such, the Adviser develops a modified discount rate approach that incorporates risk premiums including, among other things, increased probability of default, higher loss given default or increased liquidity risk. The DCF valuations applied to the syndicated loans provide an estimate of what the Adviser believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Adviser applies the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity. As of June 30 and March 31, 2013, we had no securities for which a limited market exists.

Securities for which no market exists: The valuation methodology for securities for which no market exists falls into four categories: (A) portfolio investments comprised solely of debt securities; (B) portfolio investments in controlled companies comprised of a bundle of securities, which can include debt and equity securities; (C) portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities; and (D) portfolio investments comprised of non-publicly traded, non-control equity securities of other funds.

(A) Portfolio investments comprised solely of debt securities: Debt securities that are not publicly traded on an established securities market, or for which a market does not exist (Non-Public Debt Securities), and that are issued by portfolio companies in which we have no equity or equity-like securities, are fair valued utilizing opinions of value submitted to us by Standard & Poor's Securities Evaluations, Inc. (SPSE). The Adviser may also submit paid-in-kind (PIK) interest to SPSE for its evaluation when it is determined that PIK interest is likely to be received.

(B) Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities: The fair value of these investments is determined based on the total enterprise value (TEV) of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820 for our Non-Public Debt Securities and equity or equity-like securities (e.g., preferred equity,

Edgar Filing: GLADSTONE INVESTMENT CORPORATION\DE - Form 10-Q

common equity or other equity-like securities) that are purchased together as part of a package where we have control or could gain control through an option or warrant security; both the debt and equity securities of the portfolio investment would exit in the mergers and acquisitions market as the principal market, generally through a sale or recapitalization of the portfolio company. We generally exit the debt and equity securities of an issuer at the same time. Applying

the liquidity waterfall approach to all of our investments in an issuer, the Adviser first calculates the TEV of the issuer by incorporating some or all of the following factors:

the issuer's ability to make payments;

the earnings of the issuer;

recent sales to third parties of similar securities;

the comparison to publicly-traded securities; and

DCF or other pertinent factors.

In gathering the sales to third parties of similar securities, the Adviser generally references industry statistics and may use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once the Adviser has estimated the TEV of the issuer, it will subtract the value of all the debt securities of the issuer, which are valued at the contractual principal balance. Fair values of these debt securities are discounted for any shortfall of TEV over the total debt outstanding for the issuer. Once the values for all outstanding senior securities, which include all the debt securities, have been subtracted from the TEV of the issuer, the remaining amount, if any, is used to determine the value of the issuer's equity or equity-like securities. If, in the Adviser's judgment, the liquidity waterfall approach does not accurately reflect the value of the debt component, the Adviser may recommend that we use a valuation by SPSE, or, if that is unavailable, a DCF valuation technique.

(C) Portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities: The Adviser values Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which we do not control or cannot gain control as of the measurement date, using a hypothetical, secondary market as our principal market. In accordance with ASC 820 (as amended by the FASB's Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS), (ASU 2011-04)), the Adviser has defined our unit of account at the investment level (either debt or equity) and, as such, determines our fair value of these non-control investments assuming the sale of an individual security using the standalone premise of value. As such, the Adviser estimates the fair value of the debt component using estimates of value provided by SPSE and its own assumptions in the absence of observable market data, including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. For equity or equity-like securities of investments for which we do not control or cannot gain control as of the measurement date, the Adviser estimates the fair value of the equity based on factors such as the overall value of the issuer, the relative fair value of other units of account, including debt, or other relative value approaches. Consideration is also given to capital structure and other contractual obligations that may impact the fair value of the equity. Furthermore, the Adviser may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or DCF valuation techniques and, in the absence of other observable market data, its own assumptions.

(D) Portfolio investments comprised of non-publicly traded, non-control equity securities of other funds: The Adviser generally values any uninvested capital of the non-control fund at par value and values any invested capital at the value provided by the non-control fund. As of June 30 and March 31, 2013, we had no non-control equity securities of other funds. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly and materially from the values that would have been obtained had a ready market for the securities existed. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that the Adviser might reasonably expect us to receive upon the current sale of the security in an orderly transaction between market participants at the measurement date.

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 and acquisition costs, the accretion of discounts and the amortization of amendment fees, 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 June 30, 2013, loans to two portfolio companies, ASH Holdings Corp. (ASH) and Tread Corp. (Tread) were on non-accrual. These non-accrual loans had an aggregate cost basis of \$25.7 million, or 9.7% of the cost basis of debt investments in our portfolio, and an aggregate fair value of \$0. As of March 31, 2013, ASH and Tread were also on non-accrual and had an aggregate cost basis of \$24.9 million, or 10.4% of the cost basis of debt investments in our portfolio, and an aggregate fair value of \$0.

During the three months ended June 30, 2013, we recorded PIK income of \$10. 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. To maintain our status as a RIC, this non-cash source of income must be included in our calculation of distributable income for purposes of complying with our distribution requirements, even though we have not yet collected the cash.

Other Income Recognition

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. We did not record any dividend income during the three months ended June 30, 2013 and 2012.

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We recorded \$0.2 million and \$0.4 million of success fees during the three months ended June 30, 2013 and 2012, respectively, representing prepayments received from Mathey Investments, Inc. (Mathey).

Both dividends and success fees 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 we anticipate no impact from adopting this standard on our financial position or results of operations. We are currently assessing whether additional disclosure requirements will be necessary. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013.

NOTE 3. INVESTMENTS

ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820 provides a consistent definition of fair value that focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

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

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

Level 3 inputs to the valuation methodology are unobservable and reflect assumptions that market participants would use when pricing the asset or liability. Level 3 inputs can include the Adviser's own assumptions based upon the best available information.

As of June 30 and March 31, 2013, all of our investments were valued using Level 3 inputs. We transfer investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the three months ended June 30, 2013 and 2012, there were no transfers in or out of Level 1, 2 and 3.

The following table presents the financial assets carried at fair value as of June 30 and March 31, 2013, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type for each of the three applicable levels of hierarchy established by ASC 820 that we used to value our financial assets:

	June 30, 2013			March 31, 2013		
	Total Recurring Fair Value Measurement			Total Recurring Fair Value Measurement		
	Reported in Condensed Consolidated Statements of Assets and Liabilities			Reported in Condensed Consolidated Statements of Assets and Liabilities		
	Level 1	Level 3		Level 1	Level 3	
Control Investments						
Senior debt	\$	\$ 93,160	\$ 93,160	\$	\$ 73,391	\$ 73,391
Senior subordinated debt		79,647	79,647		79,748	79,748
Preferred equity		76,645	76,645		77,032	77,032
Common equity/equivalents		11,027	11,027		13,632	13,632
Total Control Investments		260,479	260,479		243,803	243,803
Affiliate Investments						
Senior debt		22,620	22,620		24,471	24,471
Senior subordinated debt		6,821	6,821		7,063	7,063
Preferred equity		6,646	6,646		5,125	5,125
Total Affiliate Investments		36,087	36,087		36,659	36,659
Non-Control/Non-Affiliate Investments						
Senior debt		3,010	3,010		6,020	6,020
Senior subordinated debt		7,501	7,501			
Preferred equity		1,250	1,250			
Total Non-Control/Non-Affiliate Investments		11,761	11,761		6,020	6,020
Total Investments at fair value	\$	\$ 308,327	\$ 308,327	\$	\$ 286,482	\$ 286,482
Cash Equivalents		30,000	30,000		65,000	65,000
Total Investments and Cash Equivalents	\$ 30,000	\$ 308,327	\$ 338,327	\$ 65,000	\$ 286,482	\$ 351,482

In accordance with ASU 2011-04, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30 and March 31, 2013. In addition to the techniques and inputs noted in the table below, according to our valuation policy, the Adviser may also use other valuation techniques and methodologies when determining our fair value measurements. 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								
	Valuation		Technique/ Methodology	Unobservable Input	Range / Weighted Average as of June 30, 2013		Range / Weighted Average as March 31, 2013	
	Fair Value as of June 30, 2013	Fair Value as March 31, 2013						
Senior debt	\$118,790	\$ 103,882	TEV	EBITDA multiples ^(B)	3.7x / 7.0x / 5.2x	4.6x / 7.3x / 5.6x		
					(\$233) / \$5,912/			
				EBITDA ^(B)	\$3,644	(\$997) / \$6,640 / \$3,752		
				SPSE ^(A)	\$1,370	\$335 - \$3,249 /		
				Risk Ratings ^(C)	3.7 / 7.9 / 4.8	3.7 / 6.9 / 5.1		
Senior subordinated debt	\$93,969	\$ 86,811	TEV	EBITDA multiples ^(B)	4.3x / 9.7x / 6.4x	4.5x / 9.7x / 6.5x		
					(\$2,739) / \$8,238/			
				EBITDA ^(B)	\$4,442	(\$2,866) / \$8,695 / \$4,400		

Edgar Filing: GLADSTONE INVESTMENT CORPORATION/DE - Form 10-Q

			SPSE ^(A)	EBITDA ^(B)	\$5,231 - \$6,543 / \$5,878	\$5,169 - \$6,026 / \$5,738
				Risk Ratings ^(C)	4.9 6.2/5.4	4.1 - 6.2 / 4.8
Preferred equity	84,541	82,157	TEV	EBITDA multiples ^(B)	3.7x 9.7x /5.6x	4.2x 9.7x / 5.9x
					(\$2,739) -\$8,238 /	(\$2,866) - \$8,695 /
				EBITDA ^(B)	\$4,347	\$4,344
Common equity/equivalents	11,027	13,632	TEV	EBITDA multiples ^(B)	3.6x 7.5x /5.9x	3.7x 7.8x /6.2x
					(\$2,739) -\$6,655 /	(\$2,866) -\$6,026 /
				EBITDA ^(B)	\$2,064	\$1,959
Total	\$308,327	\$ 286,482				

- (A) SPSE makes an independent assessment of the data the Adviser submits to them (which includes the financial and operational performance, as well as the Adviser's internally assessed risk ratings of the portfolio companies – see footnote (C) below) and its own independent data to form an opinion as to what they consider to be the market values for our securities. With regard to its work, SPSE has stated that the data submitted to us is proprietary in nature.
- (B) Adjusted earnings before interest expense, taxes, depreciation and amortization (EBITDA) is an unobservable input, which is generally based on the most recently available trailing twelve month financial statements submitted to the Adviser from the portfolio companies. EBITDA multiples, generally indexed, represent the Adviser's estimate of where market participants might price these investments. For our bundled debt and equity investments, the EBITDA and EBITDA multiple inputs are used in the TEV fair value determination, and the issuer's debt, equity, and/or equity-like securities are valued in accordance with the Adviser's liquidity waterfall approach. In limited cases, the revenue from the most recently available trailing twelve month financial statements submitted to the Adviser from the portfolio companies and the related revenue multiples, generally indexed, are used to provide a TEV fair value determination of our bundled debt and equity investments.
- (C) As part of the Adviser's valuation procedures, it risk rates all of our investments in debt securities. The Adviser uses a proprietary risk rating system for all debt securities. The Adviser's risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. The risk rating system covers both qualitative and quantitative aspects of the portfolio company business and the securities we hold.

A portfolio company's EBITDA and EBITDA multiples are the significant unobservable inputs generally included in the Adviser's internally-assessed TEV models used to value our proprietary debt and equity investments. Holding all other factors constant, increases (decreases) in the EBITDA and/or the EBITDA multiples inputs would result in a higher (lower) fair value measurement. Per our valuation policy, the Adviser generally uses an indexed EBITDA multiple. EBITDA and EBITDA multiple inputs do not necessarily directionally correlate since EBITDA is a company performance metric and EBITDA multiples can be influenced by market, industry, size and other factors.

Changes in Level 3 Fair Value Measurements of Investments

The following tables provide the changes in fair value, broken out by security type, during the three month periods ended June 30, 2013 and 2012 for all investments for which we determine fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument 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 (that is, components that are actively quoted and can be validated to external sources). In these cases, we categorize the fair value measurement in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Accordingly, the gains and losses in the tables below include changes in fair value, due in part to observable factors that are part of the valuation methodology.

Fair Value Measurements of Investments Using Significant Unobservable Inputs (Level 3)

	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three months ended June 30, 2013:					
Fair value as of March 31, 2013	\$ 103,882	\$ 86,811	\$ 82,157	\$ 13,632	\$ 286,482
Total (losses) gains:					
Net unrealized (depreciation) appreciation ^(B)	(3,842)	(943)	(3,922)	(2,699)	(11,406)
New investments, repayments and settlements ^(C) :					
Issuances / Originations	20,690	8,501	6,306	94	35,591
Settlements / Repayments	(1,940)	(400)			(2,340)
Fair value as of June 30, 2013	\$ 118,790	\$ 93,969	\$ 84,541	\$ 11,027	\$ 308,327

	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three months ended June 30, 2012:					
Fair value as of March 31, 2012	\$ 94,886	\$ 70,661	\$ 46,669	\$ 13,436	\$ 225,652
Total (losses) gains:					

Edgar Filing: GLADSTONE INVESTMENT CORPORATION\DE - Form 10-Q

Net realized losses ^{(A)(D)}				(46)	(46)
Net unrealized (depreciation) appreciation ^(B)	(4,990)	2,587	(4,956)	1,642	(5,717)
New investments, repayments and settlements ^(C) :					
Issuances / Originations	950	9,315	2,479	21	12,765
Settlements / Repayments	(765)	(2,165)			(2,930)
Sales ^(D)				46	46
Fair value as of June 30, 2012	\$ 90,081	\$ 80,398	\$ 44,192	\$ 15,099	\$ 229,770

- (A) Included in Net realized (loss) gain on our accompanying *Condensed Consolidated Statements of Operations* for the periods ended June 30, 2013 and 2012.
- (B) Included in Net unrealized (depreciation) appreciation on our accompanying *Condensed Consolidated Statements of Operations* for the periods ended June 30, 2013 and 2012.
- (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 (losses) gains and Sales are post-closing adjustments recorded in the current period related to exits from prior periods.

Investment Activity

During the three months ended June 30, 2013, the following significant transactions occurred:

In April 2013, we invested \$17.7 million in a new Control investment, Jackrabbit, Inc. (Jackrabbit), through a combination of debt and equity. Jackrabbit, headquartered in Ripon, California, is a manufacturer of nut harvesting equipment.

In May 2013, we invested \$8.8 million in a new Non-Control/Non-Affiliate investment, Funko, LLC (Funko), through a combination of debt and equity. Funko, headquartered in Lynnwood, Washington, is a designer, importer and marketer of pop-culture collectibles. This was our first co-investment with our affiliate fund, Gladstone Capital Corporation, pursuant to an exemptive order granted by the SEC in July 2012.

In June 2013, we invested \$9.0 million in a new Control investment, Star Seed, Inc. (Star Seed), through a combination of debt and equity. Based in Osborne, Kansas, Star Seed provides its customers with a variety of specialty seeds and related products.

Investment Concentrations

As of June 30, 2013, our investment portfolio consisted of investments in 24 portfolio companies located in 15 states across 14 different industries with an aggregate fair value of \$308.3 million, of which Venyu Solutions, Inc. (Venyu), Acme Cryogenics, Inc. (Acme) and SOG Specialty K&T, LLC (SOG), collectively, comprised approximately \$96.2 million, or 31.2%, of our total investment portfolio at fair value. The following table outlines our investments by security type at June 30 and March 31, 2013:

	June 30, 2013				March 31, 2013			
	Cost		Fair Value		Cost		Fair Value	
Senior debt	\$ 154,495	43.0%	\$ 118,790	38.5%	\$ 135,745	41.6%	\$ 103,882	36.3%
Senior subordinated debt	111,648	31.0	93,969	30.5	103,547	31.7	86,811	30.3
Total debt	266,143	74.0	212,759	69.0	239,292	73.3	190,693	66.6
Preferred equity	88,016	24.5	84,541	27.4	81,710	25.0	82,157	28.7
Common equity/equivalents	5,513	1.5	11,027	3.6	5,419	1.7	13,632	4.7
Total equity/equivalents	93,529	26.0	95,568	31.0	87,129	26.7	95,789	33.4
Total investments	\$ 359,672	100.0%	\$ 308,327	100.0%	\$ 326,421	100.0%	\$ 286,482	100.0%

Investments at fair value consisted of the following industry classifications at June 30 and March 31, 2013:

	June 30, 2013		March 31, 2013	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments

Edgar Filing: GLADSTONE INVESTMENT CORPORATION/DE - Form 10-Q

Chemicals, Plastics, and Rubber	\$ 56,644	18.4%	\$ 59,170	20.7%
Electronics	42,374	13.7	43,970	15.3
Machinery	32,008	10.4	32,662	11.4
Diversified/Conglomerate Manufacturing	29,784	9.7	32,698	11.4
Leisure, Amusement, Motion Pictures, Entertainment	26,899	8.7	29,822	10.4
Farming and Agriculture	25,150	8.2		
Aerospace and Defense	24,135	7.8	20,876	7.3
Containers, Packaging, and Glass	23,922	7.8	23,019	8.0
Home and Office Furnishings, Housewares, and Durable Consumer Products	21,418	6.9	23,512	8.2
Personal and Non-Durable Consumer Products	8,751	2.8		
Automobile	7,486	2.4	7,467	2.6
Cargo Transport	6,437	2.1	6,897	2.4
Buildings and Real Estate	3,010	1.0	6,020	2.2
Beverage, Food, and Tobacco	309	0.1	369	0.1
Total Investments	\$ 308,327	100.0%	\$ 286,482	100.0%

The investments, at fair value, were included in the following geographic regions of the U.S. as of June 30 and March 31, 2013:

	June 30, 2013		March 31, 2013	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
South	\$ 117,223	38.0%	\$ 125,518	43.8%
West	101,849	33.0	81,400	28.4
Northeast	55,810	18.1	58,319	20.4
Midwest	33,445	10.9	21,245	7.4
Total Investments	\$ 308,327	100.0%	\$ 286,482	100.0%

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 repayments and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of June 30, 2013:

		Amount
For the remaining nine months ending March 31:	2014	\$ 9,133
For the fiscal year ending March 31:	2015	76,384
	2016	42,164
	2017	60,735
	2018	51,982
	Thereafter	26,000
	Total contractual repayments	\$ 266,398
	Investments in equity securities	93,529
	Adjustments to cost basis on debt securities	(255)
	Total cost basis of investments held at June 30, 2013:	\$ 359,672

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 maintain an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management's expectations of future losses. We charge the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of June 30 and March 31, 2013, we had gross receivables from portfolio companies of \$0.7 million and \$1.2 million, respectively. The allowance for uncollectible receivables was \$129 and \$44 as of June 30 and March 31, 2013, respectively.

NOTE 4. RELATED PARTY TRANSACTIONS

Investment Advisory and Management Agreement

We entered into an investment advisory and management agreement with the Adviser (the *Advisory Agreement*). The Adviser is controlled by our chairman and chief executive officer. 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 and an incentive fee. On July 9, 2013, our Board of Directors approved the renewal of the *Advisory Agreement* through August 31, 2014.

Edgar Filing: GLADSTONE INVESTMENT CORPORATION/DE - Form 10-Q

The following table summarizes the management fees, incentive fees and associated credits reflected in our accompanying *Condensed Consolidated Statements of Operations*:

	Three Months Ended June 30,	
	2013	2012
Average gross assets subject to base management fee ^(A)	\$ 309,800	\$ 238,200
Multiplied by prorated annual base management fee of 2%	0.5%	0.5%
Base management fee^(B)	1,549	1,191
Credit for fees received by Adviser from the portfolio companies ^(B)	(511)	(184)
Net base management fee	\$ 1,038	\$ 1,007
Incentive fee^(B)	\$ 165	\$

^(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 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 and provide other services to such portfolio companies. Although neither we nor our Adviser receive fees in connection with managerial assistance, the Adviser provides other services to our portfolio companies and receives fees for these other services. 50% of certain of these fees and 100% of others are credited against the base management fee that we would otherwise be required to pay to our Adviser.

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

Our Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the income-based incentive fee to the extent net investment income did not 100% cover distributions to common stockholders for the three months ended June 30, 2013.

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% 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% 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 June 30, 2013, 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% 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 future. No GAAP accrual for a capital gains-based incentive fee has been recorded since our inception through June 30, 2013.

Administration Agreement

We have entered into an administration agreement (the Administration Agreement) with Gladstone Administration, LLC (the Administrator), an affiliate of ours and the Adviser, whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator's overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent and the salaries and benefits expenses of our chief financial officer and treasurer, chief compliance officer, internal counsel and their respective staffs. Our allocable portion of administrative expenses is generally derived by multiplying the Administrator's total allocable expenses by the percentage of our total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies managed by the Adviser under similar agreements. On July 9, 2013, our Board of Directors approved the renewal of the Administration Agreement through August 31, 2014.

Related Party Fees Due

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

	June 30, 2013	March 31, 2013
Base management fee due to Adviser	\$ 262	\$ 625
Incentive fee due to Adviser	165	1,454
Other due to (from) Adviser	20	(12)
Total fees due to Adviser	\$ 447	\$ 2,067
Fee due to Administrator	\$ 243	\$ 221
Total related party fees due	\$ 690	\$ 2,288

NOTE 5. BORROWINGS*Line of Credit*

On April 30, 2013, through our wholly-owned subsidiary, Business Investment, we entered into a fifth amended and restated credit agreement to increase the commitment amount of the revolving line of credit (the Credit Facility) from \$60.0 million to \$70.0 million and to extend the maturity date as described below. The Credit Facility was arranged by Key Equipment Finance Inc. (KEF) as administrative agent, lead arranger and a lender, with Branch Banking and Trust Company (BB&T) as a lender. The maturity date was extended to April 30, 2016 (the Maturity Date) and, if not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before April 30, 2017 (one year after the Maturity Date). In addition, there are two one-year extension options to be agreed upon by all parties, which may be exercised on or before April 30, 2014 and 2015, respectively. Subject to certain terms and conditions, the Credit Facility may be expanded up to a total of \$200.0 million through the addition of other lenders to the facility. Advances under the Credit Facility generally bear interest at 30-day LIBOR, plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. We incurred fees of approximately \$0.3 million in connection with this amendment.

On June 12, 2013, we further increased the borrowing capacity under the Credit Agreement from \$70.0 million to \$105.0 million by entering into Joinder Agreements pursuant to the Credit Agreement, by and among Business Investment, the administrative agent, the servicer and each of Alostair Bank of Commerce and Everbank Commercial Finance, Inc.

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

	June 30, 2013	March 31, 2013
Commitment amount	\$ 105,000	\$ 60,000
Borrowings outstanding at cost	49,000	31,000
Availability	52,088	29,000

Edgar Filing: GLADSTONE INVESTMENT CORPORATION/DE - Form 10-Q

	For the Three Months Ended	
	June 30,	
	2013	2012
Weighted average borrowings outstanding	\$ 32,654	\$ 791
Effective interest rate ^(A)	4.6%	41.9% ^(B)
Commitment (unused) fees incurred	\$ 52	\$ 75

^(A) Excludes the impact of deferred financing fees.

^(B) Due to limited borrowings outstanding, the commitment (unused) fees significantly increase the effective interest rate. The stated interest rate on advances bore interest at 30-day LIBOR plus 3.75% per annum.

Interest is payable monthly during the term of the Credit Facility. Available borrowings are subject to various constraints imposed under the 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.

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

Generally, our Credit Facility contains covenants that require Business Investment to, among other things, 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 also limits payments on distributions to the aggregate net investment income for each of the twelve month periods ending March 31, 2014, 2015, 2016 and 2017. Business Investment is also subject to certain limitations on the type of loan investments it can apply toward availability credit in the borrowing base, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, 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 \$170.0 million plus 50% of all equity and subordinated debt raised after April 30, 2013, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, 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 June 30, 2013, and as defined in the performance guaranty of our Credit Facility, we had a minimum net worth of \$270.5 million, an asset coverage of 283% 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 June 30, 2013, Business Investment had 19 obligors. As of June 30, 2013, we were in compliance with all covenants.

Short-Term Loan

Similar to previous quarter ends, to maintain our status as a RIC, we purchased \$30.0 million of short-term U.S. Treasury Bills (T-Bills) through Jefferies & Company, Inc. (Jefferies) on June 27, 2013. As these T-Bills have a maturity of less than three months, we consider them to be cash equivalents and include them in cash and cash equivalents on our accompanying *Condensed Consolidated Statement of Assets and Liabilities* as of June 30, 2013. The T-Bills were purchased on margin using \$4.0 million in cash and the proceeds from a \$26.0 million short-term loan from Jefferies with an effective annual interest rate of approximately 1.56%. On July 5, 2013, when the T-Bills matured, we repaid the \$26.0 million loan from Jefferies and we received back the \$4.0 million margin payment sent to Jefferies to complete the transaction.

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). We evaluated whether the transaction should be accounted for as a sale or a financing-type transaction under the applicable guidance of ASC 860. Based on the terms of the participation agreement, we are required 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 \$5.0 million secured borrowing liability. The secured borrowing has a stated interest rate of 7% and a maturity date of January 3, 2018.

Fair Value

We elected to apply ASC 825, Financial Instruments, specifically for our Credit Facility and short-term loan, which was consistent with the application of ASC 820 to our investments. Generally, we estimate the fair value of our Credit Facility using estimates of value provided by an independent third party and our own assumptions in the absence of observable market data, including estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. During the three months ended June 30, 2013, due to the closing of a new three-year line of credit, increase in the commitment size from \$60.0 million to \$105.0 million and the addition of two new lenders, cost was deemed to approximate fair value. Additionally, due to the nine-day duration of the short-term loan, cost was deemed to approximate fair value. At each of June 30 and March 31, 2013, all of our borrowings were valued using Level 3 inputs. The following tables present the short-term loan and Credit Facility carried at fair value as of June 30 and March 31, 2013, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and a roll-forward of the changes in fair value during the three months ended June 30, 2013 and 2012:

	Level 3 Borrowings	
	Total Recurring Fair Value Measurement	
	Reported in Condensed Consolidated	
	Statements of Assets and Liabilities	
	June 30,	March 31,
	2013	2013
Short-Term Loan	\$ 26,009	\$ 58,016
Credit Facility	49,000	31,854
Total	\$ 75,009	\$ 89,870

Fair Value Measurements of Borrowings Using Significant Unobservable Inputs (Level 3)

	Short-Term	Credit	
	Loan	Facility	Total
Three months ended June 30, 2013:			
Fair value at March 31, 2013	\$ 58,016	\$ 31,854	\$ 89,870
Borrowings	26,009	28,500	54,509
Repayments	(58,016)	(10,500)	(68,516)
Net unrealized depreciation ^(A)		(854)	(854)
Fair value at June 30, 2013	\$ 26,009	\$ 49,000	\$ 75,009
Three months ended June, 30 2012:			
Fair value at March 31, 2012	\$ 76,005	\$	\$ 76,005
Borrowings	76,010	31,000	107,010
Repayments	(76,005)		(76,005)
Net unrealized appreciation ^(A)		492	492
Fair value at June 30, 2012	\$ 76,010	\$ 31,492	\$ 107,502

^(A) Included in net unrealized (depreciation) appreciation on our accompanying *Condensed Consolidated Statement of Operations* for periods ended June 30, 2013 and 2012.

The fair value of the collateral under our Credit Facility was approximately \$303.1 million and \$263.7 million at June 30 and March 31, 2013, respectively. The fair value of the collateral under the short-term loan was approximately \$30.0 million and \$65.0 million at June 30 and March 31, 2013, respectively.

NOTE 6. INTEREST RATE CAP AGREEMENTS

We have entered into an interest rate cap agreement with BB&T that effectively limits the interest rate on a portion of our borrowings under the line of credit pursuant to the terms of our Credit Facility. The agreement provide that the interest rate on a portion of our borrowings is capped at a certain interest rate when 30-day LIBOR is in excess of that certain interest rate. The fair value of the interest rate cap agreement is recorded in other assets on our accompanying *Condensed Consolidated Statements of Assets and Liabilities*. We record changes in the fair value of the interest rate cap agreement quarterly based on the current market valuation at quarter end as net unrealized appreciation (depreciation) of other on our accompanying *Condensed Consolidated Statements of Operations*. Generally, we will estimate the fair value of our interest rate cap using estimates of value provided by the counterparty and our own assumptions in the absence of observable market data, including estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. At both June 30 and March 31, 2013, our interest rate cap agreement was valued using Level 3 inputs. The following table summarizes the key terms of the interest rate cap agreement:

Interest	Notional Amount	LIBOR Cap	Effective Date	Maturity Date	June 30, 2013		March 31, 2013	
					Cost	Fair Value	Cost	Fair Value
Rate Cap ^(A)								
December 2011	\$ 50,000	6.0%	May 2012	October 2013	\$ 29	\$	\$ 29	\$

^(A) Indicates date we entered into the interest rate cap agreement with BB&T.

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

In July 2013, we entered into a forward interest rate cap agreement. See Note 13 *Subsequent Events* for further discussion.

NOTE 7. MANDATORILY REDEEMABLE PREFERRED STOCK

In March 2012, we completed a public offering of 1,600,000 shares of 7.125% Series A Cumulative Term Preferred Stock (our 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 will be amortized over the redemption period ending February 28, 2017.

The shares have a redemption date of February 28, 2017, and are traded under the ticker symbol GAINP on the NASDAQ Global Select Market. The Term Preferred Stock is not convertible into our common stock or any other security. The Term Preferred Stock provides for a fixed dividend equal to 7.125% per year, payable monthly. We are required to redeem all of the outstanding 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, there are three other potential redemption triggers: 1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of the outstanding 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 the outstanding 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 the Term Preferred Stock.

Our Board of Directors declared and paid the following monthly distributions to preferred stockholders for the three months ended June 30, 2013:

Fiscal Year	Time Period		Declaration		Payment Date	Distribution per Term Preferred Share
	Start	End	Date	Record Date		
2014	April 1	30	April 9, 2013	April 22, 2013	April 30, 2013	\$ 0.1484375
	May 1	31	April 9, 2013	May 20, 2013	May 31, 2013	0.1484375
	June 1	30	April 9, 2013	June 19, 2013	June 28, 2013	0.1484375
Three months ended June 30, 2013:						\$ 0.4453125
2013	April 1	30	April 11, 2012	April 20, 2012	April 30, 2012	\$ 0.1484375
	May 1	31	April 11, 2012	May 18, 2012	May 31, 2012	0.1484375
	June 1	30	April 11, 2012	June 20, 2012	June 29, 2012	0.1484375
Three months ended June 30, 2012:						\$ 0.4453125

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 the Term Preferred Stock based on the last reported closing price as of June 30 and March 31, 2013, was approximately \$42.2 million and \$42.7 million, respectively.

Aggregate Term Preferred Stock distributions declared and paid for the three months ended June 30, 2013, were approximately \$0.7 million. The tax character of distributions paid by us to preferred stockholders is from ordinary income.

NOTE 8. COMMON STOCK

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. 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 stock, including through a combined offering of two or more of such securities.

On October 5, 2012, we completed a public offering of 4.0 million shares of our common stock at a public offering price of \$7.50 per share, which was below our then current net asset value (NAV) per share. Gross proceeds totaled \$30.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were \$28.3 million, which was used to repay borrowings under our Credit Facility. In connection with the offering, the underwriters exercised their option to purchase an additional 395,825 shares at the public offering price to

cover over-allotments, which resulted in gross proceeds of \$3.0 million and net proceeds, after deducting underwriting discounts, of \$2.8 million.

NOTE 9. NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE

The following table sets forth the computation of basic and diluted net decrease in net assets resulting from operations per weighted average common share for the three months ended June 30, 2013 and 2012:

	Three Months Ended June 30,	
	2013	2012
Numerator for basic and diluted net decrease in net assets resulting from operations per common share	\$ (6,519)	\$ (3,017)
Denominator for basic and diluted weighted average common shares	26,475,958	22,080,133
Basic and diluted net decrease in net assets resulting from operations per common share	\$ (0.25)	\$ (0.13)

NOTE 10. DISTRIBUTIONS TO COMMON STOCKHOLDERS

To qualify to be taxed as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code, we are required to distribute to our stockholders 90% 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 our estimated taxable income by management. Based on that estimate, three monthly distributions are declared each quarter.

Our Board of Directors declared the following monthly distributions to common stockholders for the three months ended June 30, 2013 and 2012:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Common Share
2014	April 9, 2013	April 22, 2013	April 30, 2013	\$ 0.05
	April 9, 2013	May 14, 2013	May 31, 2013	0.05
	April 9, 2013	June 19, 2013	June 28, 2013	0.05
Three months ended June 30, 2013:				\$ 0.15
2013	April 11, 2012	April 20, 2012	April 30, 2012	\$ 0.05
	April 11, 2012	May 18, 2012	May 31, 2012	0.05
	April 11, 2012	June 20, 2012	June 29, 2012	0.05
Three months ended June 30, 2012:				\$ 0.15

Aggregate common distributions declared quarterly and paid for the three months ended June 30, 2013 and 2012 were approximately \$4.0 million and \$3.3 million, respectively, which were declared based on estimates of net investment income for the respective fiscal years. The tax characterization of the common distributions declared and paid for the fiscal year ended March 31, 2014, will be determined at fiscal year end and cannot be determined at this time. For the fiscal year ended March 31, 2013, taxable income available for common distributions exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat \$3.1 million of the common distributions paid in fiscal year 2014 as having been paid in the prior year.

NOTE 11. COMMITMENTS AND CONTINGENCIES

As of June 30, 2013, we have lines of credit commitments to certain of our portfolio companies that have not been fully drawn. Since these lines of credit have expiration dates and we expect many will never be fully drawn, the total line of credit commitment amounts do not necessarily represent future cash requirements.

Edgar Filing: GLADSTONE INVESTMENT CORPORATION\DE - Form 10-Q

In addition to the lines of credit to certain portfolio companies, we have also extended certain guarantees on behalf of some of our portfolio companies. As of June 30, 2013, we have not been required to make any payments on the guarantees discussed below, and we consider the credit risk to be remote and the fair values of the guarantees to be minimal.

In October 2008, we executed a guarantee of a vehicle finance facility agreement (the Finance Facility) between Ford Motor Credit Company (Ford) and ASH. The Finance Facility provides ASH with a line of credit of up to \$0.5 million for component Ford parts used by ASH to build truck bodies under a separate contract. Ford retains title and ownership of the parts. The guarantee of the Finance Facility will expire upon termination of the separate parts supply contract with Ford or upon replacement of us as guarantor.

In February 2010, we executed a guarantee of a wholesale financing facility agreement (the Floor Plan Facility) between Agricredit Acceptance, LLC (Agricredit) and CCE. The Floor Plan Facility provides CCE with financing of up to \$2.0 million to bridge the time and cash flow gap between the order and delivery of golf carts to customers. The guarantee was renewed in February 2011, 2012 and 2013 and expires in February 2014, unless it is renewed again by us, CCE and Agricredit. In connection with this guarantee and its subsequent renewals, we recorded aggregate premiums of \$0.4 million from CCE.

In April 2010, we executed a guarantee of vendor recourse for up to \$2.0 million in individual customer transactions (the Recourse Facility) between Wells Fargo Financial Leasing, Inc. and CCE. The Recourse Facility provides CCE with the ability to provide vendor recourse up to a limit of \$2.0 million on transactions with long-time customers who lack the financial history to qualify for third-party financing. The terms to maturity of these individual transactions range from October 2014 to October 2016. In connection with this guarantee, we received aggregate premiums of \$0.1 million from CCE.

The following table summarizes the dollar balance of unused line of credit commitments and guarantees as of June 30 and March 31, 2013:

	June 30, 2013	March 31, 2013
Unused line of credit commitments	\$	