

GLADSTONE INVESTMENT CORPORATION\DE

Form 10-Q

February 02, 2009

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED DECEMBER 31, 2008

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

COMMISSION FILE NUMBER: 000-51233

GLADSTONE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

83-0423116

(I.R.S. Employer Identification No.)

**1521 WESTBRANCH DRIVE, SUITE 200
MCLEAN, VIRGINIA 22102**

(Address of principal executive office)

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

(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 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, outstanding as of January 30, 2009 were 22,080,133.

Table of Contents

GLADSTONE INVESTMENT CORPORATION

TABLE OF CONTENTS

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	<u>Condensed Consolidated Statements of Assets and Liabilities as of December 31, 2008 and March 31, 2008</u>	3
	<u>Condensed Consolidated Schedules of Investments as of December 31, 2008 and March 31, 2008</u>	4
	<u>Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2008 and 2007</u>	12
	<u>Condensed Consolidated Statements of Changes in Net Assets for the nine months ended December 31, 2008 and 2007</u>	13
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2008 and 2007</u>	14
	<u>Financial Highlights for the three and nine months ended December 31, 2008 and 2007</u>	15
	<u>Notes to Condensed Consolidated Financial Statements</u>	16
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
	<u>Overview</u>	30
	<u>Results of Operations</u>	31
	<u>Liquidity and Capital Resources</u>	38
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	47
Item 4.	<u>Controls and Procedures</u>	48
PART II.	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	48
Item 1A.	<u>Risk Factors</u>	48
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
Item 3.	<u>Defaults Upon Senior Securities</u>	53
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	53
Item 5.	<u>Other Information</u>	53
Item 6.	<u>Exhibits</u>	54
SIGNATURES		54

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

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

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

[Table of Contents](#)

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF DECEMBER 31, 2008

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

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

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

Open Solutions, Inc.	Service - software outsourcing for financial institutions	Senior Term Debt (6.0%, Due 1/2014) (3)	2,656	1,936
Ozburn-Hessey Holding Co. LLC	Service - third party logistics	Senior Term Debt (5.6%, Due 8/2012) (3)	7,549	6,079
Pinnacle Foods Finance, LLC	Manufacturing - branded food products	Senior Term Debt (6.1%, Due 4/2014) (3)	1,955	1,367
PTS Acquisition Corp.	Manufacturing - drug delivery and packaging technologies	Senior Term Debt (3.7%, Due 4/2014) (3)	6,895	5,026
QTC Acquisition, Inc.	Service - outsourced disability evaluations	Senior Term Debt (4.1%, Due 11/2012) (3)	1,914	1,462
Radio Systems Corporation	Service - design electronic pet containment products	Senior Term Debt (3.6%, Due 9/2013) (3)	1,876	1,391
Rally Parts, Inc.	Manufacturing - aftermarket motorcycle parts and accessories	Senior Term Debt (3.6%, Due 11/2013) (3)	2,471	1,769
RPG Holdings, Inc.	Manufacturing and design - greeting cards	Senior Term Debt (non-accrual) (8)	4,553	2,048
SafeNet, Inc.	Service - chip encryption products	Senior Term Debt (7.8%, Due 4/2014) (3)	2,957	2,107
SGS International, Inc.	Service - digital imaging and graphics	Senior Term Debt (4.1%, Due 12/2011) (3)	1,475	1,226
Survey Sampling, LLC	Service - telecommunications-based sampling	Senior Term Debt (9.5%, Due 5/2011) (3)	2,598	2,386

Table of Contents

Triad Laboratory Alliance, LLC	Service - regional medical laboratories	Senior Term Debt (4.7%, Due 12/2011) (3)	4,131	3,527
Wastequip, Inc.	Service - process and transport waste materials	Senior Term Debt (2.7%, Due 2/2013) (3)	2,900	2,139
WaveDivision Holdings, LLC	Service - cable	Senior Term Debt (4.4%, Due 6/2014) (3)	1,910	1,466
West Corporation	Service - business process outsourcing	Senior Term Debt (3.5%, Due 10/2013) (3)	3,331	2,446
Subtotal - Senior Syndicated Loans			\$ 127,238	\$ 96,527
Non-Syndicated Loans				
B-Dry, LLC	Service - basement waterproofer	Revolving Credit Facility, \$300 available (10.5%, Due 10/2009)	\$ 450	\$ 442
		Senior Term Debt (10.0%, Due 5/2014) (5)	6,681	6,447
		Senior Term Debt (10.0%, Due 5/2014) (5)	3,930	3,792
		Common Stock Warrants (4)	300	
			11,361	10,681
Total Non-Control/Non-Affiliate Investments			\$ 138,599	\$ 107,208

[Table of Contents](#)

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

AS OF DECEMBER 31, 2008

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

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

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

		Revolving Credit Facility, \$1,105 available (5.9%, Due 3/2009)		
		Senior Term Debt (8.8%, Due 3/2011)	9,075	9,075
		Senior Term Debt (12.0%, Due 3/2011) (6)	7,720	7,720
		Senior Subordinated Term Debt (13.0%, Due 3/2013)	6,168	6,168
		Redeemable Preferred Stock (4)	6,961	9,089
		Common Stock (4)	61	7,620
			33,380	43,067
Country Club Enterprises, LLC	Service golf cart distribution	Subordinated Term Debt (14.0% Due 11/2014) (7)	7,000	7,000
		Preferred Stock (4), (7)	3,725	3,725
			10,725	10,725
Galaxy Tool Holding Corp.	Manufacturing - aerospace and plastics	Senior Subordinated Term Debt (13.5%, Due 8/2013)	17,250	17,250
		Preferred Stock (4)	4,112	4,333
		Common Stock (4)	48	389
			21,410	21,972
Total Control Investments			\$ 152,395	\$ 167,175

[Table of Contents](#)

GLADSTONE INVESTMENT CORPORATION
CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS
AS OF DECEMBER 31, 2008
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company (1)	Industry	Investment (2)	Cost	Fair Value
AFFILIATE INVESTMENTS				
Danco Acquisition Corp.	Manufacturing - machining and sheet metal work	Revolving Credit Facility, \$2,600 available (9.3%, Due 10/2010)	\$ 400	\$ 376
		Senior Term Debt (9.3%, Due 10/2012) (5)	5,100	4,807
		Senior Term Debt (11.5%, Due 4/2013) (5)	9,135	8,496
		Redeemable Preferred Stock (4)	2,500	2,664
		Common Stock Warrants (4)	3	
			17,138	16,343
Mathey Investments, Inc.	Manufacturing - pipe-cutting and pipe-fitting equipment	Revolving Credit Facility, \$2,000 available (9.0%, Due 3/2011)		
		Senior Term Debt (9.0%, Due 3/2013) (5)	2,406	2,346
		Senior Term Debt (12.0%, Due 3/2014) (5), (6)	7,245	7,037