GLADSTONE INVESTMENT CORPORATION\DE
Form 10-Q
July 29, 2014
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 quarterly period ended June 30, 2014

OR

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

For the transition period from __________ to __________

Commission file number: 814-00704

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 100 **MCLEAN, VIRGINIA** **(Address of principal executive office)**	**22102** **(Zip Code)**

(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨.

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. The number of shares of the issuer s Common Stock, $0.001 par value per share, outstanding as of July 25, 2014, was 26,475,958.

GLADSTONE INVESTMENT CORPORATION

TABLE OF CONTENTS

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	June 30, 2014	March 31, 2014
ASSETS		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of **$202,717** and $233,895, respectively)	**$ 189,309**	$ 205,440
Affiliate investments (Cost of **$155,767** and $120,010, respectively)	**110,337**	87,849
Control investments (Cost of **$27,032** and $29,632 respectively)	**22,186**	21,104
Total investments at fair value (Cost of **$385,516** and $383,537, respectively)	**321,832**	314,393
Cash	**3,772**	4,553
Restricted cash	**5,315**	5,314
Interest receivable	**1,651**	1,289
Due from custodian	**1,092**	1,704
Deferred financing costs	**2,600**	2,355
Other assets	**2,164**	1,086
Total assets	**$ 338,426**	$ 330,694
LIABILITIES		
Borrowings:		
Line of credit at fair value (Cost of **$62,950** and $61,250, respectively)	**$ 62,950**	$ 61,701
Secured borrowing	**5,096**	5,000
Total borrowings	**68,046**	66,701
Mandatorily redeemable preferred stock, $0.001 par value, $25 liquidation preference; 1,610,000 shares authorized, **1,600,000** shares issued and outstanding as of June 30 and March 31, 2014	**40,000**	40,000
Accounts payable and accrued expenses	**664**	665
Fees due to Adviser[A]	**1,647**	1,225
Fee due to Administrator[A]	**235**	224
Other liabilities	**993**	1,042
Total liabilities	**111,585**	109,857
Commitments and contingencies[B]		
NET ASSETS		

Common stock, $0.001 par value per share, 100,000,000 shares authorized, **26,475,958** shares issued and outstanding as of June 30 and March 31, 2014, respectively	**$ 26**	$ 26
Capital in excess of par value	**286,964**	287,062
Cumulative net unrealized depreciation of investments	**(63,684)**	(69,144)
Cumulative net unrealized depreciation of other	**(74)**	(525)
Net investment income in excess of distributions	**3,807**	3,616
Accumulated net realized loss	**(198)**	(198)
Total net assets	**226,841**	220,837
Total liabilities and net assets	**$ 338,426**	$ 330,694
NET ASSET VALUE PER SHARE AT END OF PERIOD	**$ 8.57**	$ 8.34

(A) Refer to Note 4 *Related Party Transactions* for additional information.
(B) Refer to Note 10 *Commitments and Contingencies* for additional information.

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended June 30, 2014	2013
INVESTMENT INCOME		
Interest income:		
Non-Control/Non-Affiliate investments	**$ 5,257**	$ 4,677
Affiliate investments	**2,616**	458
Control investments	**530**	2,046
Cash and cash equivalents	**1**	1
Total interest income	**8,404**	7,182
Other income:		
Non-Control/Non-Affiliate investments	**1,399**	216
Affiliate investments	**34**	
Total other income	**1,433**	216
Total investment income	**9,837**	7,398
EXPENSES		
Base management fee[(A)]	**1,666**	1,549
Loan servicing fee[(A)]	**1,135**	1,024
Incentive fee[(A)]	**1,215**	165
Administration fee[(A)]	**235**	243
Interest expense on borrowings	**738**	477
Dividends on mandatorily redeemable preferred stock	**713**	713
Amortization of deferred financing costs	**254**	244
Professional fees	**242**	120
Other general and administrative expenses	**297**	365
Expenses before credits from Adviser	**6,495**	4,900
Credit of loan servicing fee[(A)]	**(1,135)**	(1,024)
Other credits to fee[(A)]	**(382)**	(511)
Total expenses net of credits to fees	**4,978**	3,365
NET INVESTMENT INCOME	**$ 4,859**	$ 4,033

UNREALIZED GAIN (LOSS)				
Net unrealized appreciation (depreciation):				
Non-Control/Non-Affiliate investments		**445**		(8,837)
Affiliate investments		**1,342**		(4,232)
Control investments		**3,673**		1,663
Other		**451**		854
Total net unrealized appreciation (depreciation)		**5,911**		(10,552)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**10,770**	$	(6,519)
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	**$**	**0.18**	$	0.15
Net increase (decrease) in net assets resulting from operations	**$**	**0.41**	$	(0.25)
Dividends declared and paid	**$**	**0.18**	$	0.15
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic and diluted		**26,475,958**		26,475,958

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

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

(UNAUDITED)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
OPERATIONS:		
Net investment income	$ 4,859	$ 4,033
Net unrealized appreciation (depreciation) of investments	5,460	(11,406)
Net unrealized appreciation of other	451	854
Net increase (decrease) in net assets from operations	10,770	(6,519)
DISTRIBUTIONS TO COMMON STOCKHOLDERS:	(4,766)	(3,972)
Total increase (decrease) in net assets	6,004	(10,491)
Net assets at beginning of period	220,837	240,963
Net assets at end of period	$ 226,841	$ 230,472

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase (decrease) in net assets resulting from operations	**$ 10,770**	$ (6,519)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	**(2,010)**	(35,590)
Principal repayments of investments	**60**	2,340
Increase in investment balance due to paid in kind interest	**(29)**	(1)
Net unrealized (appreciation) depreciation of investments	**(5,460)**	11,406
Net unrealized appreciation of other	**(451)**	(854)
Amortization of deferred financing costs	**254**	244
Increase in restricted cash	**(1)**	
Increase in interest receivable	**(362)**	(360)
Decrease (increase) in due from custodian	**612**	(1)
(Increase) decrease in other assets	**(1,078)**	451
(Decrease) increase in accounts payable and accrued expenses	**(48)**	89
Increase (decrease) in fees due to Adviser[(A)]	**422**	(1,620)
Increase in administration fee due to Administrator[(A)]	**11**	22
Decrease in other liabilities	**(49)**	(56)
Net cash provided by (used in) operating activities	**2,641**	(30,449)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans		26,009
Repayments on short-term loans		(58,016)
Proceeds from line of credit	**6,300**	28,500
Repayments on line of credit	**(4,600)**	(10,500)
Proceeds from secured borrowing	**96**	
Payment of deferred financing costs	**(452)**	(978)
Distributions paid to common stockholders	**(4,766)**	(3,972)
Net cash used in financing activities	**(3,422)**	(18,957)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(781)**	(49,406)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**4,553**	85,904

CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 3,772**	$ 36,498

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

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS(K):					
Acme Cryogenics, Inc.	Chemicals, Plastics, and Rubber	Senior Subordinated Term Debt (11.5%, Due 3/2015)(I)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (898,814 shares)(C)(F)		6,984	12,396
		Common Stock (418,072 shares)(C)(F)		1,045	426
		Common Stock Warrants (465,639 shares)(C)(F)		25	
				22,554	27,322
Auto Safety House, LLC	Automobile	Revolving Credit Facility, $1,000 available (7.0%, Due 10/2018)(D)(I)	5,000	5,000	4,919
		Guaranty ($500)(J)			
		Guaranty ($250)(J)			
				5,000	4,919
B-Dry, LLC	Buildings and Real Estate	Line of Credit, $0 available (6.5%, Due 5/2015)(D)	750	750	563
		Senior Term Debt (13.5%, Due 5/2015)(D)	6,433	6,443	4,864
		Senior Term Debt (13.5%, Due 5/2015)(D)	2,840	2,840	2,137
		Common Stock Warrants (85 shares)(C)(F)		300	
				10,333	7,564
Cavert II Holding Corp.	Containers, Packaging, and Glass	Preferred Stock (18,446 shares)(C)(F)		1,845	3,081
				1,845	3,081
Country Club	Automobile	Senior Subordinated Term Debt	4,000	4,000	4,000

Enterprises, LLC		(18.6%, Due 11/2014)			
		Preferred Stock (7,079,792 shares)(C)(F)		7,725	3,515
		Guaranty ($2,000)			
		Guaranty ($831)			
				11,725	7,515
Drew Foam Company, Inc.	Chemicals, Plastics, and Rubber	Senior Term Debt (13.5%, Due 8/2017)	10,913	10,913	10,913
		Preferred Stock (34,045 shares)(C)(F)		3,375	2,107
		Common Stock (5,372 shares)(C)(F)		63	
				14,351	13,020
Frontier Packaging, Inc.	Containers, Packaging, and Glass	Senior Term Debt (12.0%, Due 12/2017)	12,500	12,500	12,500
		Preferred Stock (1,373 shares)(C)(F)		1,373	1,551
		Common Stock (152 shares)(C)(F)		152	108
				14,025	14,159
Funko, LLC	Personal and Non-Durable Consumer Products (Manufacturing Only)	Senior Subordinated Term Debt (12.0% and 1.5% PIK, Due 5/2019)(D)	7,616	7,616	7,768
		Preferred Stock (1,305 shares)(C)(F)		1,305	2,596
				8,921	10,364
Ginsey Home Solutions, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Subordinate Term Debt (13.5%, Due 1/2018) (H)	13,300	13,300	13,300
		Preferred Stock (18,898 shares)(C)(F)		9,583	1,019
		Common Stock (63,747 shares)(C)(F)		8	
				22,891	14,319
Jackrabbit, Inc.	Farming and Agriculture	Senior Term Debt (13.5%, Due 4/2018)	11,000	11,000	11,000
		Preferred Stock (3,556 shares)(C)(F)		3,556	3,908
		Common Stock (548 shares)(C)(F)		94	2,054
				14,650	16,962
Mathey Investments, Inc.	Machinery (Nonagriculture,	Senior Term Debt (10.0%, Due 3/2016)	1,375	1,375	1,375

Nonconstruction, Nonelectronic)				
	Senior Term Debt (12.0%, Due 3/2016)	3,727	3,727	3,727
	Senior Term Debt (12.5%, Due 3/2016)(E)(I)	3,500	3,500	3,500
	Common Stock (29,102 shares)(C)(F)		777	5,576
			9,379	14,178

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

ompany[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Valu
itchell ubber roducts, Inc.	Chemicals, Plastics, and Rubber	Subordinated Term Debt (13.0%, Due 10/2016)[(D)(I)]	$ 13,560	$ 13,560	$ 12,882
		Preferred Stock (27,900 shares)[(C)(F)]		2,790	
		Common Stock (27,900 shares)[(C)(F)]		28	
				16,378	12,882
recision outheast, Inc.	Diversified/Conglomerate Manufacturing	Senior Term Debt (14.0%, Due 12/2015)	5,617	5,617	5,617
		Preferred Stock (19,091 shares)[(C)(F)]		1,909	134
		Common Stock (90,909 shares)[(C)(F)]		91	
				7,617	5,751
uench oldings Corp.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Common Stock (4,770,392 shares)[(C)(F)]		3,397	4,753
				3,397	4,753
BS, Industries, LC	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	Senior Term Debt (14.0%, Due 8/2016)	11,355	11,355	11,355
		Preferred Stock (19,935 shares)[(C)(F)]		1,994	584
		Common Stock (221,500 shares)[(C)(F)]		221	
				13,570	11,939
chylling vestments, LC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Term Debt (13.0%, Due 8/2017)	13,081	13,081	13,081
		Preferred Stock (4,000 shares) [(C)(F)]		4,000	

				17,081	13,081
ar Seed, Inc.	Farming and Agriculture	Senior Term Debt (12.5%, Due 4/2018)	7,500	7,500	7,500
		Preferred Stock (1,499 shares)(C)(F)		1,499	
		Common Stock (600 shares)(C)(F)		1	
				9,000	7,500
otal Non-Control/Non-Affiliate Investments (represents 58.8% of total investments at fair value)				**$ 202,717**	**$ 189,309**
FFILIATE INVESTMENTS(L):					
lloy Die asting Corp.	Diversified/Conglomerate Manufacturing	Senior Term Debt (13.5%, Due 10/2018)(D)	$ 12,215	$ 12,215	$ 12,230
		Preferred Stock (4,064 shares)(C)(F)		4,064	906
		Common Stock (630 share)(C)(F)		41	
				16,320	13,136
ehrens Ianufacturing, LC	Diversified/Conglomerate Manufacturing	Senior Term Debt (13.0%, Due 12/2018)	9,975	9,975	9,975
		Preferred Stock (2,923 shares) (C)(F)		2,922	3,232
				12,897	13,207
hannel echnologies roup, LLC	Diversified/Conglomerate Manufacturing	Preferred Stock (2,279 shares)(C)(F)		2,864	2,353
		Common Stock (2,279,020 shares)(C)(F)			
				2,864	2,353
anco cquisition orp.	Diversified/Conglomerate Manufacturing	Line of Credit, $500 available (4.0%, Due 8/2015)(D)	3,850	3,850	578
		Senior Term Debt (4.0%, Due 8/2015)(D)	2,575	2,575	386
		Senior Term Debt (4.0%, Due 8/2015)(D)	8,795	8,795	1,319
		Senior Term Debt (5.0%, Due 8/2015)(D)(E)	1,150	1,150	173
		Preferred Stock (25 shares)(C)(F)		2,500	
		Common Stock (1,241 shares)(C)(F)		3	
				18,873	2,456
dge Adhesives oldings, Inc.	Diversified/Conglomerate Manufacturing	Line of Credit, $345 available (10.5%, Due 8/2014) (D)	1,155	1,155	1,156
		Senior Term Debt (12.5%, Due 2/2019) (D)	9,300	9,300	9,335
		Senior Subordinated Term Debt (13.75%, Due 2/2019) (D)	2,400	2,400	2,412
		Preferred Stock (3,474 shares) (C)(F)		3,474	4,192
				16,329	17,095
ead Country ood Products,	Beverage, Food and Tobacco	Line of Credit, $500 available (10.0%, Due 8/2014)			

c.

	Senior Term Debt (12.5%, Due 2/2019)	9,050	9,050	9,050
	Preferred Stock (4,000 shares)(C)(F)		4,000	2,156
			13,050	11,206

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

8

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[A]	Industry	Investment[B]	Principal	Cost	Fair Value
Meridian Rack & Pinion, Inc.	Automobile	Senior Term Debt (13.5%, Due 12/2018) [D]	$ 9,660	$ 9,660	$ 9,684
		Preferred Stock (3,381 shares) [C][F]		3,381	3,552
				13,041	13,236
NDLI Inc.	Cargo Transport	Line of Credit, $0 available (10.5%, Due 1/2015)[D]	800	800	640
		Senior Term Debt (11.0%, Due 1/2015)[D]	7,227	7,227	5,782
		Senior Term Debt (10.5%, Due 1/2015)[D]	3,650	3,650	2,920
		Senior Term Debt (10.5%, Due 1/2015)[D][E]	3,650	3,650	2,920
		Preferred Stock (2,600 shares)[C][F]		2,600	
		Common Stock (545 shares)[C][F]			
				17,927	12,262
SOG Specialty K&T, LLC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Term Debt (13.3%, Due 10/2017)	6,200	6,200	6,200
		Senior Term Debt (14.8%, Due 10/2017)	12,199	12,199	12,199
		Preferred Stock (9,749 shares)[C][F]		9,749	6,987
				28,148	25,386
Tread Corp.	Oil and Gas	Line of Credit, $29 available (12.5%, Due 2/2015)[G][I]	3,221	3,221	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)[G][I]	5,000	5,000	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)[G][I]	2,750	2,750	

		Senior Subordinated Term Debt (12.5%, Due 2/2015)(G)(I)	1,000	1,000	
		Senior Subordinated Term Debt (12.5%, Due on Demand)(G)(I)	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	
				16,318	
Total Affiliate Investments (represents 34.3% of total investments at fair value)				**$ 155,767**	**$ 110,337**
CONTROL INVESTMENTS(M):					
Galaxy Tool Holding Corp.	Aerospace and Defense	Senior Subordinated Term Debt (13.5%, Due 8/2017)	$ 15,520	$ 15,520	$ 15,520
		Preferred Stock (6,039,387 shares)(C)(F)		11,464	6,666
		Common Stock (88,843 shares)(C)(F)		48	
Total Control Investments (represents 6.9% of total investments at fair value)				**$ 27,032**	**$ 22,186**
TOTAL INVESTMENTS				**$ 385,516**	**$ 321,832**

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

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

(C) Security is non-income producing.

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

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

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

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

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

(I) Debt security has a fixed interest rate.

(J) Subsequent to June 30, 2014, the guarantee was extinguished.

(K)

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

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

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

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

MARCH 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS(L):					
Acme Cryogenics, Inc.	Chemicals, Plastics, and Rubber	Senior Subordinated Term Debt (11.5%, Due 3/2015)(K)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (898,814 shares)(C)(F)		6,984	11,276
		Common Stock (418,072 shares)(C)(F)		1,045	
		Common Stock Warrants (465,639 shares)(C)(F)		25	
				22,554	25,776
Alloy Die Casting Corp.	Diversified/Conglomerate Manufacturing	Senior Term Debt (13.5%, Due 10/2018)(D)	12,215	12,215	12,2611
		Preferred Stock (4,064 shares)(C)(F)		4,064	1,948
		Common Stock (630 share)(C)(F)		41	
				16,320	14,209
Auto Safety House, LLC	Automobile	Revolving Credit Facility, $1,000 available (7.0%, Due 10/2018)(D)(K)	5,000	5,000	4,925
		Guaranty ($500)			
		Guaranty ($250)			
				5,000	4,925
B-Dry, LLC	Buildings and Real Estate	Line of Credit, $0 available (6.5%, Due 5/2014)	750	750	566
		Senior Term Debt (13.5%, Due 5/2014)	6,433	6,443	4,865
		Senior Term Debt (13.5%, Due 5/2014)	2,840	2,840	2,144
		Common Stock Warrants (85 shares)(C)(F)		300	
				10,333	7,575

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

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

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

10

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

MARCH 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
Mitchell Rubber Products, Inc.	Chemicals, Plastics, and Rubber	Subordinated Term Debt (13.0%, Due 10/2016)[(D)(K)]	$ 13,560	$ 13,560	$ 13,628
		Preferred Stock (27,900 shares)[(C)(F)]		2,790	1,086
		Common Stock (27,900 shares)[(C)(F)]		28	
				16,378	14,714
Noble Logistics, Inc.	Cargo Transport	Line of Credit, $0 available (10.5%, Due 1/2015)[(D)]	800	800	204
		Senior Term Debt (11.0%, Due 1/2015)[(D)]	7,227	7,227	1,842
		Senior Term Debt (10.5%, Due 1/2015)[(D)]	3,650	3,650	931
		Senior Term Debt (10.5%, Due 1/2015)[(D)(E)]	3,650	3,650	931
				15,327	3,908
Precision Southeast, Inc.	Diversified/Conglomerate Manufacturing	Senior Term Debt (14.0%, Due 12/2015)	5,617	5,617	5,617
		Preferred Stock (19,091 shares)[(C)(F)]		1,909	
		Common Stock (90,909 shares)[(C)(F)]		91	
				7,617	5,617
Quench Holdings Corp.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Common Stock (4,770,391 shares)[(C)(F)]		3,397	5,056
				3,397	5,056
SBS, Industries, LLC	Machinery (Nonagriculture,	Senior Term Debt (14.0%, Due 8/2016)	11,355	11,355	11,355

	Nonconstruction, Nonelectronic)				
		Preferred Stock (19,935 shares)(C)(F)		1,994	1,064
		Common Stock (221,500 shares)(C)(F)		221	
				13,570	12,419
Schylling Investments, LLC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Term Debt (13.0%, Due 8/2017)(D)	13,081	13,081	13,228
		Preferred Stock (4,000 shares) (C)(F)		4,000	
				17,081	13,228
Star Seed, Inc.	Farming and Agriculture	Senior Term Debt (12.5%, Due 4/2018)(D)	7,500	7,500	7,594
		Preferred Stock (1,499 shares)(C)(F)		1,499	
		Common Stock (600 shares)(C)(F)		1	
				9,000	7,594
Total Non-Control/Non-Affiliate Investments (represents 65.4% of total investments at fair value)				**$ 233,895**	**$ 205,440**
AFFILIATE INVESTMENTS(M):					
Behrens Manufacturing, LLC	Diversified/Conglomerate Manufacturing	Senior Term Debt (13.0%, Due 12/2018)	$ 9,975	$ 9,975	$ 9,975
		Preferred Stock (2,923 shares) (C)(F)		2,922	2,754
				12,897	12,729
Channel Technologies Group, LLC	Diversified/Conglomerate Manufacturing	Preferred Stock (2,279 shares)(C)(F)		2,864	3,122
		Common Stock (2,279,020 shares)(C)(F)			
				2,864	3,122
Danco Acquisition Corp.	Diversified/Conglomerate Manufacturing	Line of Credit, $700 available (4.0%, Due 8/2015)(D)	3,450	3,450	690
		Senior Term Debt (4.0%, Due 8/2015)(D)	2,575	2,575	515
		Senior Term Debt (4.0%, Due 8/2015)(D)	8,795	8,795	1,759

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

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

MARCH 31, 2014

(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
Meridian Rack & Pinion, Inc.	Automobile	Senior Term Debt (13.5%, Due 12/2018) (D)	$ 9,660	$ 9,660	$ 9,672
		Preferred Stock (3,381 shares) (C)(F)		3,381	3,468
				13,041	13,140
SOG Specialty K&T, LLC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Term Debt (13.3%, Due 8/2016)	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	8,240
				28,148	26,639
Tread Corp.	Oil and Gas	Line of Credit, $779 available (12.5%, Due 6/2014)(G)(K)	2,471	2,471	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)(G)(K)	5,000	5,000	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)(G)(K)	2,750	2,750	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)(G)(K)	1,000	1,000	
		Senior Subordinated Term Debt (12.5%, Due on Demand)(G)(K)	510	510	
		Preferred Stock (3,332,765 shares)(C)(F)		3,333	
		Common Stock (7,716,320 shares)(C)(F)		501	
		Common Stock Warrants (2,372,727 shares)(C)(F)		3	
				15,568	
Total Affiliate Investments (represents 27.9% of total investments at fair value)				**$ 120,010**	**$ 87,849**

CONTROL INVESTMENTS(N):

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

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

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

(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, 2014.

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

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

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

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

(I) $5 million of the debt security participated to a third party but accounted for as collateral for a secured borrowing for accounting principles generally accepted in the U.S. (GAAP) purposes.

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

(K) Debt security has a fixed interest rate.

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

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

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

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

Table of Contents

GLADSTONE INVESTMENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

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

NOTE 1. ORGANIZATION

Gladstone Investment Corporation (Gladstone Investment) was incorporated under the General Corporation Law of the State of Delaware on February 18, 2005, and completed an initial public offering on June 22, 2005. The terms the Company, we, our and us all refer to Gladstone Investment and its consolidated subsidiaries. We are an externally advised, closed-end, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, we have elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). We were established for the purpose of investing in debt and equity securities of established private businesses in the United States (U.S.). Debt investments primarily come in the form of three types of loans: senior term loans, senior subordinated loans and junior subordinated debt. Equity investments primarily take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. Our investment objectives are: (a) to achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time, and (b) to provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. We aim to maintain a portfolio allocation of approximately 80% 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 also have significant subsidiaries whose financial statements are not consolidated with ours. Refer to Note 12 *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of SEC Regulation S-X. Accordingly, we have omitted certain disclosures accompanying annual financial statements prepared in accordance with GAAP. The accompanying condensed consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. Under Article 6 of Regulation S-X, and the authoritative accounting guidance provided by the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are not required 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, 2014, are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended March 31, 2014, as filed with the SEC on May 13, 2014.

Our 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.

Table of Contents

Revisions

Certain amounts in the prior year s financial statements have been revised to correct the presentation for the three months ended June 30, 2014 with no effect on our financial condition or results of operations. Certain amounts that were revised relate to our change in the classification of certain of our investments between control, affiliate and non-control/non-affiliate. The general change in the definitions from prior reported periods to the three months ended June 30, 2014, relate to the use of voting equity securities as the primary determinate of classification compared to the use of both voting and non-voting equity securities in prior periods.

Other revisions related to the net presentation of certain fees in our results of operations. Our Adviser services, administers and collects on the loans held by Business Investment, in return for which our Adviser receives a 2% annual fee from Business Investment. All loan servicing fees are credited back to us by our Advisor. Previously, we incorrectly presented the loan servicing fee on a net basis, which is zero because it is 100% credited back to us. We have revised our fee presentation related to these loan servicing fees to reflect the gross fee and related gross credit amounts.

Management evaluated these errors in presentation and concluded they were not material to the previously issued financial statements for the three months ended June 30, 2013. The impact of the revisions are shown in the table below:

	Three Months Ended June 30, 2013	
	As Previously Reported	As Revised
Interest income		
Non-Control/Non-Affiliate investments	$ 436	$ 4,677
Affiliate investments	1,108	458
Control investments	5,637	2,046
Cash and cash equivalents	1	1
Total interest income	**7,182**	**7,182**
Other income		
Non-Control/Non-Affiliate investments		216
Control investments	216	
Total other income	**216**	**216**
Expenses		
Non-revised expenses, in aggregate	3,876	3,876
Loan servicing fee		1,024
Expenses before credits from Adviser	3,876	4,900
Credit of loan servicing fee		(1,024)
Other credits to fee	(511)	(511)

Total expenses net of credits to fees	**3,365**	**3,365**
Net unrealized (depreciation) appreciation		
Non-Control/Non-Affiliate investments	(3,010)	(8,837)
Affiliate investments	878	(4,232)
Control investments	(9,274)	1,663
Other	854	854
Total net unrealized (depreciation) appreciation	**$ (10,552)**	**$ (10,552)**

Investment Valuation Policy

Accounting Recognition

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

Board Responsibility

In accordance with the 1940 Act, our board of directors (our Board of Directors) has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on our established investment valuation policy (the Policy). Our Board of Directors reviews valuation recommendations that are provided by professionals of the Adviser and Administrator with oversight and direction from the Valuation Officer, employed by the Administrator (the Valuation Team). There is no single standard for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. In determining the fair value of our investments, the Valuation Team, led by the Valuation Officer, uses the Policy, which 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 Valuation Team has applied the Policy consistently.

Use of Third Party Valuation Firms

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

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

Valuation Techniques

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

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

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

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

In addition to the above valuation techniques, the Valuation Team may also consider other factors when determining fair values of our investments, including, but not limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new debt and equity investments made during the three months ended June 30, 2014 are generally valued at original cost basis. Fair value measurements of our investments may involve subjective judgments and estimates and due to the inherent uncertainty of determining these fair values, the fair value of our investments may fluctuate from period to period. Additionally, changes in the market environment and other events that may occur over the life of the investment may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which it is recorded.

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

Interest Income Recognition

Interest income, adjusted for amortization of premiums, amendment fees and acquisition costs and the accretion of discounts, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past-due principal and interest are paid, and, in management s judgment, are likely to remain current, or due to a restructuring, the interest income is deemed to be collectible. As of June 30, 2014, our loans to Tread Corp. (Tread) were on non-accrual, with an aggregate debt cost basis of $12.5 million, or 4.5% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0. As of March 31, 2014, our loans to Tread were on non-accrual, with an aggregate debt cost basis of $11.7 million, or 4.2% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0.

PIK interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income. During the three months ended June 30, 2014, we recorded PIK income of $29. During the three months ended June 30, 2013, we recorded PIK income of $10.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company. We did not record any success fee income during the three months ended June 30, 2014. We recorded $0.2 million of success fees during the three months ended June 30, 2013, representing prepayments received from Mathey Investments, Inc. (Mathey).

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. For the three months ended June 30, 2014, we recorded $1.4 million of dividend income primarily consisting of a receivable from Mathey. We collected the Mathey dividend receivable on July 1, 2014. We did not record any dividend income during the three months ended June 30, 2013.

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 there was no impact from adopting this standard on our financial position or results of operations. We adopted ASU 2013-08 beginning with our quarter ended June 30, 2014, and have increased our disclosure requirements as necessary.

NOTE 3. INVESTMENTS

Fair Value

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

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

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

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

When a determination is made to classify our investments within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. As of June 30 and March 31, 2014, all of our investments were valued using Level 3 inputs and during the three months ended June 30, 2014 and 2013, there were no investments transferred in to or out of Level 1, 2 or 3.

Table of Contents

The following table presents our investments carried at fair value as of June 30 and March 31, 2014, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type and input level on the ASC 820 fair value hierarchy:

	Total Recurring Fair Value Measurement Reported in *Condensed Consolidated Statements of Assets and Liabilities*	
	June 30, 2014	**March 31, 2014**
Non-Control/Non-Affiliate Investments		
Senior debt	$ 93,052	$ 109,479
Senior subordinated debt	52,450	52,907
Preferred equity	30,890	32,259
Common equity/equivalents	12,917	10,795
Total Non-Control/Non-Affiliate Investments	**189,309**	**205,440**
Affiliate Investments		
Senior debt	84,547	60,391
Senior subordinated debt	2,412	2,400
Preferred equity	23,379	25,058
Total Affiliate Investments	**110,338**	**87,849**
Control Investments		
Senior subordinated debt	15,520	15,520
Preferred equity	6,665	5,584
Total Control Investments	**22,185**	**21,104**
Total Investments at fair value using Level 3 inputs	**$ 321,832**	**$ 314,393**

In accordance with the FASB s ASU No. 2011-04, *Fair Value Measurement (Topic820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*, (ASU 2011-04), the following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30 and March 31, 2014. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt-related calculations and on the cost basis for all equity-related calculations for the particular input.

Quantitative Information about Level 3 Fair Value Measurements

	Fair Value as of June 30, 2014	Fair Value as of March 31, 2014	Valuation Technique/ Methodology	Unobservable Input	Range / Weighted Average as of June 30, 2014		Range / Weighted Average as of March 31 2014	
enior debt	**$ 117,993**	$ 115,081	TEV	EBITDA multiples	3.6x	7.0x / 5.1x	4.6x	7.3x / 5.6x
				EBITDA	$(606)	$5,906 / $3,359	$1,558	$6,230 / $3,60
	59,606	54,789	Yield Analysis	Discount Rate	8%	30% / 20%	8%	30% / 19%
enior subordinated debt	**47,320**	49,470	TEV	EBITDA multiples	4.1x	7.0x / 5.7x	4.1x	7.3x / 5.0x
				EBITDA	$(606)	$5,112 / $3,830	$36	$6,156 / $4,159
	23,062	21,357	Yield Analysis	Discount Rate	13%	16% / 15%	13%	13% / 13%
referred equity	**60,934**	62,901	TEV	EBITDA multiples	3.6x	8.6x / 5.7x	3.5x	8.5x / 5.1x
				EBITDA	$(606)	$10,668 / $3,933	$36	$10,621 / $4,266
ommon equity/equivalents	**12,917**	10,795	TEV	EBITDA multiples	3.5x	18.0x / 11.6x	3.4x	16.0x / 10.5x
				EBITDA	$(606)	$9,300 / $6,181	$36	$10,621 / $6,008
otal	**$ 321,832**	$ 314,393						

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

Table of Contents

The following tables provide the changes in fair value, broken out by security type, during the three months ended June 30, 2014 and 2013 for all of our investments.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three months ended June 30, 2014:					
Fair value as of March 31, 2014	$ 169,870	$ 70,827	$ 62,901	$ 10,795	$ 314,393
Total gain (loss):					
Net unrealized appreciation (depreciation)(A)	6,219	(724)	(2,157)	2,122	5,460
New investments, repayments and settlements(B):					
Issuances / Originations	1,510	279	250		2,039
Settlements / Repayments			(60)		(60)
Fair value as of June 30, 2014	**$ 177,599**	**$ 70,382**	**$ 60,934**	**$ 12,917**	**$ 321,832**

	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(A)	(3,842)	(943)	(3,922)	(2,699)	(11,406)
New investments, repayments and settlements(B):					
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**

(A) Included in Net unrealized (depreciation) appreciation on our accompanying *Condensed Consolidated Statements of Operations* for the periods ended June 30, 2014 and 2013.

(B) 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.

Investment Activity

During the three-months ended June 30, 2014, the following significant transaction occurred:

In May 2014, NDLI Acquisition Inc. completed the purchase of certain of Noble Logistics, Inc. s assets out of bankruptcy. The resulting entity was listed as one portfolio company under NDLI Inc. on our *Condensed Consolidated Schedules of Investments* as of June 30, 2014.

Investment Concentrations

As of June 30, 2014, our investment portfolio consisted of investments in 28 portfolio companies located in 14 states across 14 different industries with an aggregate fair value of $321.8 million, of which our investments in Acme Cryogenics, Inc. (Acme), SOG Specialty K&T, LLC (SOG), and Galaxy Tool Holdings Corp. (Galaxy), our three largest portfolio investments at fair value, collectively comprised $74.9 million, or 23.3%, of our total investment portfolio at fair value. The following table summarizes our investments by security type as of June 30 and March 31, 2014:

	June 30, 2014				**March 31, 2014**			
	Cost		**Fair Value**		**Cost**		**Fair Value**	
Senior debt	**$ 197,053**	**51.1%**	**$ 177,599**	**55.2%**	$ 196,293	51.2%	$ 169,870	54.0%
Senior subordinated debt	**83,377**	**21.6**	**70,382**	**21.9**	82,348	21.5	70,827	22.5
Total debt	**280,430**	**72.7**	**247,981**	**77.1**	278,641	72.7	240,697	76.5
Preferred equity	**98,289**	**25.5**	**60,934**	**18.9**	98,099	25.6	62,901	20.0
Common equity/equivalents	**6,797**	**1.8**	**12,917**	**4.0**	6,797	1.7	10,795	3.5
Total equity/equivalents	**105,086**	**27.3**	**73,851**	**22.9**	104,896	27.3	73,696	23.5
Total Investments	**$ 385,516**	**100.0%**	**$ 321,832**	**100.0%**	$ 383,537	100.0%	$ 314,393	100.0%

Table of Contents

Investments at fair value consisted of the following industry classifications as of June 30 and March 31, 2014:

	June 30, 2014		March 31, 2014	
	Fair Value	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**
Diversified/Conglomerate Manufacturing	**$ 53,998**	**16.8%**	$ 54,845	17.4%
Chemicals, Plastics, and Rubber	**53,223**	**16.5**	52,753	16.8
Leisure, Amusement, Motion Pictures, Entertainment	**38,468**	**12.0**	39,867	12.7
Machinery (Non-agriculture, Non-construction, Non-electronic)	**26,118**	**8.1**	25,917	8.2
Automobile	**25,670**	**8.0**	25,735	8.2
Farming and Agriculture	**24,462**	**7.6**	20,557	6.5
Aerospace and Defense	**22,186**	**6.9**	18,512	5.9
Home and Office Furnishings, Housewares, and Durable Consumer Products	**19,072**	**5.9**	21,188	6.7
Containers, Packaging, and Glass	**17,240**	**5.4**	17,889	5.7
Cargo Transport	**12,262**	**3.8**	6,500	2.1
Beverage Food and Tobacco	**11,206**	**3.5**	13,050	4.2
Personal and Non-Durable Consumer Products (Manufacturing Only)	**10,363**	**3.2**	10,005	3.2
Buildings and Real Estate	**7,564**	**2.3**	7,575	2.4
Total Investments	**$ 321,832**	**100.0%**	$ 314,393	100.0%

Investments at fair value were included in the following geographic regions of the U.S. as of June 30 and March 31, 2014:

	June 30, 2014		March 31, 2014	
	Fair Value	**Percentage of Total Investments**	**Fair Value**	**Percentage of Total Investments**
West	**$ 115,853**	**36.0%**	$ 117,781	37.5%
South	**96,097**	**29.9**	89,915	28.6
Northeast	**66,990**	**20.8**	67,862	21.6
Midwest	**42,892**	**13.3**	38,835	12.3
Total Investments	**$ 321,832**	**100.0%**	$ 314,393	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 repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of June 30, 2014:

		Amount
For the remaining nine months ending March 31:	2015	$ 47,463
For the fiscal year ending March 31:	2016	40,623
	2017	24,915
	2018	70,632
	2019	89,181
	Thereafter	7,616
	Total contractual repayments	**$ 280,430**
	Investments in equity securities	105,086
	Total cost basis of investments held at June 30, 2014:	**$ 385,516**

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, 2014, we had gross receivables from portfolio companies of $0.6 million and $0.9 million, respectively. The allowance for uncollectible receivables was $163 as of each of June 30 and March 31, 2014.

Table of Contents

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, each as described below. On July 15, 2014, our Board of Directors approved the renewal of the Advisory Agreement through August 31, 2015.

The following table summarizes the management fees, loan servicing fee which is paid in accordance to our line of credit, incentive fees and associated credits reflected in our accompanying *Condensed Consolidated Statements of Operations*:

	Three Months Ended June 30,	
	2014	**2013**
Average total assets subject to base management fee(A)	**$ 333,200**	$ 309,800
Multiplied by prorated annual base management fee of 2%	**0.5%**	0.5%
Base management fee(B)	**1,666**	1,549
Other credits to fee(B)	**(382)**	(511)
Net base management fee	**$ 1,284**	$ 1,038
Loan servicing fee(B)	**1,135**	1,024
Credit of loan servicing fee(B)	**(1,135)**	(1,024)
Net loan servicing fee	**$**	$
Incentive fee(B)	**$ 1,215**	$ 165

(A) Average total 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%. 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 historically have been credited against the base management fee that we would otherwise be required to pay to our Adviser. Effective October 1, 2013, 100% of all these fees are credited against the base management fee that we would otherwise be required to pay to our Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees are retained by the Adviser in the form of reimbursement for certain tasks completed by personnel of the Adviser.

Loan Servicing Fee

In addition, our Adviser services, administers and collects on the loans held by Business Investment, in return for which our Adviser receives a 2% annual fee payable monthly by Business Investment based on the monthly aggregate balance of loans held by Business Investment in accordance with our line of credit. All loan servicing fees are credited back to us by our Adviser. Overall, the base management fee due to our Adviser cannot exceed 2% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year.

Incentive Fee

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

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

- 100% 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).

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

Table of Contents

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, 2014, as cumulative net unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then GAAP requires us to record a capital gains-based incentive fee equal to 20% 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, 2014.

Administration Agreement

We have entered into an administration agreement (the Administration Agreement) with the Administrator, 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, general counsel and secretary, who also serves as the Administrator s president, 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 funds serviced by the Administrator under similar agreements. On July 15, 2014, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2015.

Related Party Fees Due

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

	As of June 30, 2014	As of March 31 2014
Base management fee due to Adviser	**$ 424**	$ 63
Incentive fee due to Adviser	**1,215**	1,161
Other due to Adviser	**8**	1

Total fees due to Adviser	**$**	**1,647**	$	1,225
Fee due to Administrator	**$**	**235**	$	224
Total related party fees due	**$**	**1,882**	$	1,449

NOTE 5. BORROWINGS

Line of Credit

On June 26, 2014, we, through our wholly-owned subsidiary, Business Investment, entered into Amendment No. 1 to the Fifth Amended and Restated Credit Agreement originally entered into on April 30, 2013, with Key Equipment Finance Inc., as administrative agent, lead arranger and a lender (the Administrative Agent), Branch Banking and Trust Company (BB&T) as a lender and managing agent, and the Adviser, as servicer, to extend the revolving period and reduce the interest rate of the line of credit (the Credit Facility). The revolving period was extended 14 months to June 26, 2017, and if not renewed or extended by June 26, 2017, all principal and interest will be due and payable on or before June 26, 2019 (two years after the revolving period end date). In addition, we have retained the two one-year extension options, to be agreed upon by all parties, which may be exercised on or before June 26, 2015 and 2016, respectively, and upon exercise, the options would extend the revolving period to June 26, 2018 and 2019 and the maturity date to June 26, 2020 and 2021, respectively. Subject to certain terms and conditions, the Credit Facility can be expanded by up to $145 million, to a total facility amount of $250 million, through additional commitments of existing or new committed lenders. Advances under the Credit Facility generally bear interest at 30-day LIBOR, plus 3.25% per annum, down from 3.75% prior to the amendment, and the Credit Facility includes a fee of 0.50% on undrawn amounts. Once the revolving period ends, the interest rate margin increases to 3.75% for the period from June 26, 2017 to June 26, 2018, and further increases to 4.25% through maturity. We incurred fees of $0.4 million in connection with this amendment.

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

	As of June 30, 2014	As of March 31, 2014
Commitment amount	**$ 105,000**	$ 105,000
Borrowings outstanding at cost	**62,950**	61,250
Availability	**42,050**	43,750

	For the Three Months Ended June 30, 2014	2013
Weighted average borrowings outstanding	**$ 60,423**	$ 32,654
Effective interest rate[(A)]	**4.3%**	4.6%
Commitment (unused) fees incurred	**$ 56**	$ 52

(A) Excludes the impact of deferred financing fees.

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. The Administrative Agent is also the trustee of the account and remits the collected funds to us once a month.

Among other things, our Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict certain material changes to our credit and collection policies without the lenders consent. Our Credit Facility generally also limits payments on distributions to the aggregate net investment income for each of the twelve month periods ending March 31, 2015, 2016 and 2017. Business Investment is also subject to certain limitations on the type of loan investments it can apply toward available credit in the borrowing base, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of obligors required in the borrowing base of the credit agreement. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatory redeemable term preferred stock) of $170 million plus 50% of all equity and subordinated debt raised after April 30, 2013, which equates to $170 million as of June 30, 2014, (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, 2014, and as defined in the performance guaranty of our Credit Facility, we had a minimum net worth of $266.8 million, an asset coverage of 300% 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, 2014, Business Investment had 21 obligors. As of June 30, 2014, we continued to be in compliance with all covenants.

We have entered into an interest rate cap agreement with Keybank National Association 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, which expires April 2016, provides that the interest rate on $45 million of our borrowings is capped at 6%, plus 3.25% per annum, when 30-day LIBOR is in excess of 6%.

Secured Borrowing

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

Table of Contents

Fair Value

We elected to apply ASC 825, Financial Instruments, specifically for our Credit Facility, which was consistent with the application of ASC 820 to our investments. Generally, the Valuation Team estimates the fair value of our Credit Facility using a yield analysis, which includes a DCF calculation, and its 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, 2014, due to the closing of an amendment extending the maturity and reducing the rate, amongst other things, cost was deemed to approximate fair value. At each of June 30 and March 31, 2014, all of our borrowings were valued using Level 3 inputs. The following tables present the short-term loan, where applicable, and Credit Facility carried at fair value as of June 30 and March 31, 2014, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and a roll-forward of the changes in fair value during the three months ended June 30, 2014 and 2013:

	Level 3 Borrowings Total Recurring Fair Value Measurement Reported in *Condensed Consolidated Statements of Assets and Liabilities*	
	June 30, 2014	**March 31, 2014**
Credit Facility	**$ 62,950**	$ 61,701

Fair Value Measurements of Borrowings Using Significant

Unobservable Inputs (Level 3)

	Credit Facility
Three months ended June 30, 2014:	
Fair value at March 31, 2014	$ 61,701
Borrowings	6,300
Repayments	(4,600)