GLADSTONE INVESTMENT CORPORATION\DE
Form 10-Q
January 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED DECEMBER 31, 2012

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

COMMISSION FILE NUMBER: 814-00704

GLADSTONE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

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

1521 WESTBRANCH DRIVE, SUITE 200

MCLEAN, VIRGINIA 22102

(Address of principal executive office)

(703) 287-5800

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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.

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 January 25, 2013, was 26,475,958.

GLADSTONE INVESTMENT CORPORATION

TABLE OF CONTENTS

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	December 31, 2012	March 31, 2012
ASSETS		
Investments at fair value		
Control investments (Cost of **$258,596** and $186,743, respectively)	**$ 226,287**	$ 157,544
Affiliate investments (Cost of **$54,679** and $70,015, respectively)	**38,986**	58,831
Non-Control/Non-Affiliate investments (Cost of **$10,283** and $9,637, respectively)	**7,987**	9,277
Total investments at fair value (Cost of **$323,558** and $266,395, respectively)	**273,260**	225,652
Cash and cash equivalents	**56,328**	91,546
Restricted cash	**631**	1,928
Interest receivable	**1,019**	1,250
Due from custodian	**11,329**	1,527
Deferred financing costs	**2,444**	2,792
Other assets	**861**	602
TOTAL ASSETS	**$ 345,872**	$ 325,297
LIABILITIES		
Borrowings:		
Short-term loan at fair value (Cost of **$44,512** and $76,005, respectively)	**$ 44,512**	$ 76,005
Line of credit at fair value (Cost of **$24,500** and $0, respectively)	**25,104**	
Secured borrowing (Cost of **$5,000** and $0, respectively)	**5,000**	
Total borrowings (Cost of **$74,012** and $76,005, respectively)	**74,616**	76,005
Mandatorily redeemable preferred stock, $0.001 par value per share, $25 liquidation preference per share; **1,610,000** shares authorized, **1,600,000** shares issued and outstanding at December 31 and March 31, 2012	**40,000**	40,000
Accounts payable and accrued expenses	**535**	506
Fees due to Adviser[(A)]	**1,074**	496
Fee due to Administrator[(A)]	**191**	218
Other liabilities	**386**	856
TOTAL LIABILITIES	**116,802**	118,081
Commitments and contingencies[(B)]		
NET ASSETS	**$ 229,070**	$ 207,216
ANALYSIS OF NET ASSETS		
Common stock, $0.001 par value per share, **100,000,000** shares authorized and **26,475,958** and 22,080,133 shares issued and outstanding at December 31 and March 31, 2012, respectively	**$ 26**	$ 22
Capital in excess of par value	**288,224**	257,131
Cumulative net unrealized depreciation of investments	**(50,298)**	(40,743)
Cumulative net unrealized depreciation of other	**(631)**	(68)
Net investment income in excess of distributions	**321**	321
Accumulated net realized loss	**(8,572)**	(9,447)
TOTAL NET ASSETS	**$ 229,070**	$ 207,216

NET ASSET VALUE PER COMMON SHARE AT END OF PERIOD	**$ 8.65**	$ 9.38

(A) Refer to Note 4 *Related Party Transactions* for additional information.
(B) Refer to Note 11 *Commitments and Contingencies* for additional information.

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	**2011**	**2012**	**2011**
INVESTMENT INCOME				
Interest income				
Control investments	**$ 4,681**	$ 3,515	**$ 12,659**	$ 9,075
Affiliate investments	**1,456**	1,226	**4,800**	3,958
Non-Control/Non-Affiliate investments	**344**	343	**990**	1,148
Cash and cash equivalents	**1**	1	**4**	7
Total interest income	**6,482**	5,085	**18,453**	14,188
Other income				
Control investments	**702**	25	**1,208**	1,201
Affiliate investments			**401**	
Non-Control/Non-Affiliate investments		59		77
Total other income	**702**	84	**1,609**	1,278
Total investment income	**7,184**	5,169	**20,062**	15,466
EXPENSES				
Base management fee(A)	**1,440**	1,140	**3,939**	3,212
Incentive fee(A)	**589**		**1,130**	19
Administration fee(A)	**191**	182	**564**	468
Interest expense on borrowings	**289**	185	**865**	550
Dividend expense on mandatorily redeemable preferred stock	**712**		**2,137**	
Amortization of deferred financing fees	**194**	106	**597**	321
Professional fees	**29**	139	**400**	453
Other general and administrative expenses	**277**	320	**978**	1,262
Expenses before credits from Adviser	**3,721**	2,072	**10,610**	6,285
Credits to fees from Adviser(A)	**(489)**	(345)	**(1,189)**	(1,071)
Total expenses net of credits	**3,232**	1,727	**9,421**	5,214
NET INVESTMENT INCOME	**3,952**	3,442	**10,641**	10,252
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss):				
Control investments	**96**	(105)	**848**	5,087
Non-Control/Non-Affiliate investments				4
Other			**(41)**	(40)
Total net realized gain (loss)	**96**	(105)	**807**	5,051
Net unrealized appreciation (depreciation):				
Control investments	**4,244**	3,433	**(3,110)**	4,368
Affiliate investments	**(2,935)**	(1,708)	**(4,508)**	2,033

Non-Control/Non-Affiliate investments		**(1,263)**		44		**(1,937)**		652
Other		**605**		389		**(563)**		21
Total net unrealized appreciation (depreciation)		**651**		2,158		**(10,118)**		7,074
Net realized and unrealized gain (loss)		**747**		2,053		**(9,311)**		12,125
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**4,699**	$	5,495	**$**	**1,330**	$	22,377
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE								
Basic and diluted	**$**	**0.18**	$	0.25	**$**	**0.06**	$	1.01
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:								
Basic and diluted		**26,147,157**		22,080,133		**23,440,737**		22,080,133

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

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Operations:		
Net investment income	**$ 10,641**	$ 10,252
Net realized gain on investments	**848**	5,091
Net realized loss on other	**(41)**	(40)
Net unrealized (depreciation) appreciation of investments	**(9,555)**	7,053
Net unrealized (appreciation) depreciation of other	**(563)**	21
Net increase in net assets from operations	**1,330**	22,377
Equity capital activity:		
Issuance of common stock, net of expenses	**31,100**	
Distributions to common stockholders	**(10,576)**	(9,605)
Net equity capital activity	**20,524**	(9,605)
Total increase in net assets	**21,854**	12,772
Net assets at beginning of period	**207,216**	198,829
Net assets at end of period	**$ 229,070**	$ 211,601

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	**$ 1,330**	$ 22,377
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	**(80,639)**	(86,327)
Principal repayments of investments	**21,137**	16,953
Proceeds from the sale of investments	**3,187**	8,032
Net realized gain on investments	**(848)**	(5,091)
Net realized loss on other	**41**	40
Net unrealized depreciation (appreciation) of investments	**9,555**	(7,053)
Net unrealized appreciation (depreciation) of other	**563**	(21)
Amortization of deferred financing costs	**597**	321
Decrease in restricted cash	**1,297**	2,539
Decrease (increase) in interest receivable	**231**	(405)
(Increase) decrease in due from custodian	**(9,802)**	137
(Increase) decrease in other assets	**(260)**	183
Increase in accounts payable and accrued expenses	**132**	290
Increase (decrease) in fees due to Adviser[(A)]	**578**	(312)
(Decrease) Increase in administration fee payable to Administrator[(A)]	**(27)**	12
Decrease in other liabilities	**(470)**	(551)
Net cash used in operating activities	**(53,398)**	(48,876)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net of expenses	**31,100**	
Proceeds from borrowings	**312,047**	231,202
Repayments on borrowings	**(314,040)**	(165,901)
Purchase of derivatives		(29)
Deferred financing costs	**(351)**	(901)
Distributions paid to common stockholders	**(10,576)**	(9,605)
Net cash provided by financing activities	**18,180**	54,766
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(35,218)**	5,890
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**91,546**	80,580
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 56,328**	$ 86,470

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

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
CONTROL INVESTMENTS:					
Acme Cryogenics, Inc.	Chemicals, Plastics, and Rubber	Senior Subordinated Term Debt (11.5%, Due 3/2015)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (898,814 shares)[(C)(F)]		6,984	11,047
		Common Stock (418,072 shares)[(C)(F)]		1,045	1,780
		Common Stock Warrants (452,683 shares)[(C)(F)]		25	560
				22,554	27,887
ASH Holdings Corp.	Automobile	Revolving Credit Facility, $350 available (3.0%, Due 3/2013)[(G)]	7,150	7,093	
		Senior Subordinated Term Debt (2.0%, Due 3/2013)[(G)]	6,250	6,050	
		Preferred Stock (4,644 shares)[(C)(F)]		2,500	
		Common Stock (1 share)[(C)(F)]			
		Common Stock Warrants (73,599 shares)[(C)(F)]		4	
		Guarantee ($500)			
				15,647	
Country Club Enterprises, LLC	Automobile	Senior Subordinated Term Debt (18.6%, Due 11/2014)	4,000	4,000	4,000
		Preferred Stock (7,304,792 shares)[(C)(F)]		7,725	4,662
		Guarantee ($2,000)			
		Guarantee ($1,049)			
				11,725	8,662
Danco Acquisition Corp.[(I)]	Diversified/Conglomerate Manufacturing	Revolving Credit Facility, $0 available (10.0%, Due 4/2013)[(D)]	2,250	2,250	675
		Senior Term Debt (10.0%, Due 4/2013)[(D)]	2,575	2,575	772
		Senior Term Debt (6.3%, Due 4/2013)[(D)]	8,796	8,796	2,639
		Senior Term Debt (5.0%, Due 8/2015)[(D)]	700	700	210
		Senior Term Debt (5.0%, Due 8/2015)[(D)(E)]	350	350	105
		Senior Term Debt (5.0%, Due 8/2015)[(D) (E)]	100	100	30
		Preferred Stock (25 shares)[(C)(F)]		2,500	
		Common Stock Warrants (1,170 shares)[(C)(F)]		2	
				17,273	4,431
Drew Foam Companies, 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	3,445
		Common Stock (5,372 shares)[(C)(F)]		63	1,916
				14,351	16,274
Frontier Packaging, inc.	Containers, Packaging, and Glass	Revolving Credit Facility, $1,500 available (10.0%, Due 12/2013)[(H)]	1,000	1,000	1,000
		Senior Term Debt (12.0%, Due 12/2017)[(H)]	12,500	12,500	12,500

		Preferred Stock (1,373 shares)(C)(F)(H)		1,373	1,373
		Common Stock (152 shares)(C)(F)(H)		152	152
				15,025	15,025
Galaxy Tool Holding Corp.	Aerospace and Defense	Senior Subordinated Term Debt (13.5%, Due 8/2013)	3,220	3,220	3,220
		Preferred Stock (4,111,907 shares)(C)(F)		19,658	10,725
		Common Stock (48,093 shares)(C)(F)		48	
				22,926	13,945
Ginsey Holdings, Inc.	Home and Office Furnishings, Housewares and Durable Consumer Products	Senior Subordinated Term Debt (13.5%, Due 1/2018)(J)	13,050	13,050	13,050
		Preferred Stock (18,898 shares)(C)(F)		9,394	9,768
		Common Stock (63,747 shares)(C)(F)		8	417
				22,452	23,235
Mathey Investments, Inc.	Machinery	Senior Term Debt (10.0%, Due 3/2014)	1,375	1,375	1,375
		Senior Term Debt (12.0%, Due 3/2014)	3,727	3,727	3,727
		Senior Term Debt (12.5%, Due 3/2014)(E)	3,500	3,500	3,500
		Common Stock (29,102 shares)(C)(F)		777	7,937
				9,379	16,539
Mitchell Rubber Products, Inc.	Chemicals, Plastics and Rubber	Subordinated Term Debt (13.0%, Due 10/2016)(D)	13,560	13,560	13,543
		Preferred Stock (27,900 shares)(C)(F)		2,790	2,457
		Common Stock (27,900 shares)(C)(F)		28	
				16,378	16,000
Precision Southeast, Inc.	Diversified/Conglomerate Manufacturing	Senior Term Debt (14.0%, Due 12/2015)	7,775	7,775	7,775
		Preferred Stock (19,091 shares)(C)(F)		1,909	2,228
		Common Stock (90,909 shares)(C)(F)		91	1,417
				9,775	11,420

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[A]	Industry	Investment[B]	Principal	Cost	Fair Value
CONTROL INVESTMENTS (Continued):					
SBS, Industries, LLC	Machinery	Senior Term Debt (14.0%, Due 8/2016)	$ 11,355	$ 11,355	$ 11,355
		Preferred Stock (19,935 shares)[C][F]		1,994	2,211
		Common Stock (221,500 shares)[C][F]		221	4,962
				13,570	18,528
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	11,966
				28,148	30,365
Tread Corp.	Oil and Gas	Revolving Credit Facility, $1,453 available (12.5%, Due 6/2013)[D][G]	1,296	1,296	
		Senior Subordinated Term Debt (12.5%, Due 5/2013)[D][G]	5,000	5,000	
		Senior Subordinated Term Debt (12.5%, Due 5/2013)[D][G]	2,750	2,750	
		Senior Subordinated Term Debt (12.5%, Due 2/2015)[D][G]	1,000	1,000	
		Senior Subordinated Term Debt (12.5%, Due On Demand)[D][G]	510	510	
		Preferred Stock (3,332,765 shares)[C][F]		3,333	
		Common Stock (7,716,320 shares)[C][F]		501	
		Common Stock Warrants (2,372,727 shares)[C][F]		3	
				14,393	
Venyu Solutions, Inc.	Electronics	Senior Subordinated Term Debt (11.3%, Due 10/2015)	7,000	7,000	7,000
		Senior Subordinated Term Debt (14.0%, Due 10/2015)	12,000	12,000	12,000
		Preferred Stock (5,400 shares)[C][F]		6,000	4,976
				25,000	23,976
Total Control Investments (represents 82.8% of total investments at fair value)				**$ 258,596**	**$ 226,287**
AFFILIATE INVESTMENTS:					
Cavert II Holding Corp.	Containers, Packaging and Glass	Senior Subordinated Term Debt (11.8%, Due 4/2016)[D]	$ 4,700	$ 4,700	$ 4,806
		Subordinated Term Debt (13.0%, Due 4/2016)[D]	4,671	4,671	4,787
		Preferred Stock (18,446 shares)[C][F]		1,844	2,752
				11,215	12,345
			750	750	748

Channel Technologies Group, LLC	Diversified/Conglomerate Manufacturing	Revolving Credit Facility, $500 available (7.0%, Due 2/2013)[D]			
		Senior Term Debt (8.3%, Due 12/2014)[D]	5,706	5,706	5,692
		Senior Term Debt (12.3%, Due 12/2016)[D]	10,750	10,750	10,723
		Preferred Stock (1,599 shares)[C][F]		1,599	352
		Common Stock (1,598,616 shares)[C][F]			
				18,805	17,515
Noble Logistics, Inc.	Cargo Transport	Revolving Credit Facility, $0 available (10.5%, Due 1/2013)[D]	800	800	400
		Senior Term Debt (11.0%, Due 1/2013)[D]	7,227	7,227	3,614
		Senior Term Debt (10.5%, Due 1/2013)[D]	3,650	3,650	1,825
		Senior Term Debt (10.5%, Due 1/2013)[D][E]	3,650	3,650	1,825
		Preferred Stock (1,075,000 shares)[C][F]		1,750	
		Common Stock (1,682,444 shares)[C][F]		1,683	
				18,760	7,664
Packerland Whey Products, Inc.	Beverage, Food and Tobacco	Subordinated Term Debt (13.8%, Due 6/2018) [D][K]	2	2	2
		Preferred Stock (248 shares)[C][F]		2,479	505
		Common Stock (247 shares)[C][F]		21	
				2,502	507
Quench Holdings Corp.	Home and Office Furnishings, Housewares and Durable Consumer Products	Preferred Stock (388 shares)[C][F]		2,950	955
		Common Stock (35,242 shares)[C][F]		447	
				3,397	955
Total Affiliate Investments (represents 14.3% of total investments at fair value)				**$ 54,679**	**$ 38,986**
NON-CONTROL/NON-AFFILIATE INVESTMENTS:					
B-Dry, LLC	Buildings and Real Estate	Revolving Credit Facility, $50 available (6.5%, Due 5/2014)[D]	$ 700	$ 700	$ 560
		Senior Term Debt (14.0%, Due 5/2014)[D]	6,443	6,443	5,155
		Senior Term Debt (14.0%, Due 5/2014)[D]	2,840	2,840	2,272
		Common Stock Warrants (55 shares)[C][F]		300	
				10,283	7,987

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Total Non-Control/Non-Affiliate Investments (represents 2.9% of total investments at fair value)	**$ 10,283**	**$ 7,987**
TOTAL INVESTMENTS	**$ 323,558**	**$ 273,260**

(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 December 31, 2012, and due date represents the contractual maturity date.

(C) Security is non-income producing.

(D) Fair value based primarily on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. as of December 31, 2012.

(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) 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 December 31, 2012, best represents fair value as of December 31, 2012.

(I) In August 2012, we received warrants in connection with our senior term note C debt investment in Danco, which resulted in Danco being reclassified as a Control investment during the three months ended September 30, 2012.

(J) $5.0 million of the debt security participated to a third party, but accounted for as collateral for a secured borrowing for in accordance with accounting principles generally accepted in the U.S. (GAAP).

(K) Security was paid off, at par, subsequent to December 31, 2012, and was valued based on the payoff.

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

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS

MARCH 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
CONTROL INVESTMENTS:					
Acme Cryogenics, Inc.	Chemicals, Plastics, and Rubber	Senior Subordinated Term Debt (11.5%, Due 3/2015)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (898,814 shares)[(C)(F)]		6,984	10,994
		Common Stock (418,072 shares)[(C)(F)]		1,045	2,132
		Common Stock Warrants (452,683 shares)[(C)(F)]		25	675
				22,554	28,301
ASH Holdings Corp.	Automobile	Line of Credit, $570 available (3.0%, Due 3/2013)[(G)]	6,430	6,388	
		Senior Subordinated Term Debt (2.0%, Due 3/2013)[(G)]	6,250	6,060	
		Preferred Stock (4,644 shares)[(C)(F)]		2,500	
		Common Stock (1 share)[(C)(F)]			
		Common Stock Warrants (73,599 shares)[(C)(F)]		4	
		Guarantee ($750)			
				14,952	
Country Club Enterprises, LLC	Automobile	Senior Subordinated Term Debt (14.0%, Due 11/2014)[(G)]	4,000	4,000	
		Preferred Stock (7,304,792 shares)[(C)(F)]		7,725	
		Guarantee ($2,000)			
		Guarantee ($1,998)			
				11,725	
Galaxy Tool Holding Corp.	Aerospace and Defense	Senior Subordinated Term Debt (13.5%, Due 8/2013)	5,220	5,220	5,220
		Preferred Stock (4,111,907 shares)[(C)(F)]		19,658	1,493
		Common Stock (48,093 shares)[(C)(F)]		48	
				24,926	6,713
Mathey Investments, Inc.	Machinery	Senior Term Debt (10.0%, Due 3/2013)	2,375	2,375	2,375
		Senior Term Debt (12.0%, Due 3/2014)	3,727	3,727	3,727
		Senior Term Debt (2.5%, Due 3/2014)[(E)]	3,500	3,500	3,500
		Common Stock (29,102 shares)[(C)(F)]		777	4,164
				10,379	13,766
Mitchell Rubber Products, Inc.	Chemicals, Plastics and Rubber	Subordinated Term Debt (13.0%, Due 10/2016)[(D)]	13,560	13,560	13,679
		Preferred Stock (27,900 shares)[(C)(F)]		2,790	2,954
		Common Stock (27,900 shares)[(C)(F)]		28	1,858
				16,378	18,491

Precision Southeast, Inc.	Diversified/Conglomerate Manufacturing	Line of Credit, $251 available (7.5%, Due 9/2012)	749	749	749
		Senior Term Debt (14.0%, Due 12/2015)	7,775	7,775	7,775
		Preferred Stock (19,091 shares)(C)(F)		1,909	1,634
		Common Stock (90,909 shares)(C)(F)		91	
				10,524	10,158
SBS, Industries, LLC	Machinery	Senior Term Debt (14.0%, Due 8/2016)	11,355	11,355	11,355
		Preferred Stock (19,935 shares)(C)(F)		1,994	2,087
		Common Stock (221,500 shares)(C)(F)		221	3,563
				13,570	17,005
SOG Specialty K&T, LLC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Term Debt (13.3%, Due 8/2016)	6,200	6,200	6,200
		Senior Term Debt (14.8%, Due 8/2016)	12,199	12,199	12,199
		Preferred Stock (9,749 shares)(C)(F)		9,749	11,697
				28,148	30,096
Tread Corp.	Oil and Gas	Senior Subordinated Term Debt (12.5%, Due 5/2013)	7,750	7,750	7,750
		Preferred Stock (832,765 shares)(C)(F)		833	1,080
		Common Stock (129,067 shares)(C)(F)		1	96
		Common Stock Warrants (1,247,727 shares)(C)(F)		3	758
				8,587	9,684
Venyu Solutions, Inc.	Electronics	Senior Subordinated Term Debt (11.3%, Due 10/2015)	7,000	7,000	7,000
		Senior Subordinated Term Debt (14.0%, Due 10/2015)	12,000	12,000	12,000
		Preferred Stock (5,400 shares)(C)(F)		6,000	4,330
				25,000	23,330
Total Control Investments (represents 69.8% of total investments at fair value)				**$ 186,743**	**$ 157,544**

GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)

MARCH 31, 2012

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

Company[(A)]	Industry	Investment[(B)]	Principal	Cost	Fair Value
AFFILIATE INVESTMENTS:					
Cavert II Holding Corp.	Containers, Packaging and Glass	Senior Term Debt (10.0%, Due 4/2016)[(D)(E)]	$ 1,050	$ 1,050	$ 1,067
		Senior Subordinated Term Debt (11.8%, Due 4/2016)[(D)]	5,700	5,700	5,771
		Subordinated Term Debt (13.0%, Due 4/2016)[(D)]	4,671	4,671	4,741
		Preferred Stock (18,446 shares)[(C)(F)]		1,844	2,596
				13,265	14,175
Channel Technologies Group, LLC	Diversified/Conglomerate Manufacturing	Line of Credit, $400 available (7.0%, Due 12/2012)[(D)]	850	850	843
		Senior Term Debt (8.3%, Due 12/2014)[(D)]	5,926	5,926	5,875
		Senior Term Debt (12.3%, Due 12/2016)[(D)]	10,750	10,750	10,642
		Preferred Stock (1,599 shares)[(C)(F)]		1,599	1,631
		Common Stock (1,598,616 shares)[(C)(F)]			75
				19,125	19,066
Danco Acquisition Corp.	Diversified/Conglomerate Manufacturing	Line of Credit, $450 available (10.0%, Due 10/2012)[(D)]	1,800	1,800	1,350
		Senior Term Debt (10.0%, Due 10/2012)[(D)]	2,575	2,575	1,931
		Senior Term Debt (12.5%, Due 4/2013)[(D)(E)]	8,891	8,891	6,669
		Preferred Stock (25 shares)[(C)(F)]		2,500	
		Common Stock Warrants (420 shares)[(C)(F)]		3	
				15,769	9,950
Noble Logistics, Inc.	Cargo Transport	Line of Credit, $0 available (10.5%, Due 1/2013)[(D)]	500	500	315
		Senior Term Debt (11.0%, Due 1/2013)[(D)]	7,227	7,227	4,553
		Senior Term Debt (10.5%, Due 1/2013)[(D)]	3,650	3,650	2,300
		Senior Term Debt (10.5%, Due 1/2013)[(D)(E)]	3,650	3,650	2,299
		Preferred Stock (1,075,000 shares)[(C)(F)]		1,750	3,550
		Common Stock (1,682,444 shares)[(C)(F)]		1,682	
				18,459	13,017
Quench Holdings Corp.	Home and Office Furnishings, Housewares and Durable Consumer Products	Preferred Stock (388 shares)[(C)(F)]		2,950	2,623
		Common Stock (35,242 shares)[(C)(F)]		447	

				3,397	2,623
Total Affiliate Investments (represents 26.1% of total investments at fair value)				**$ 70,015**	**$ 58,831**
NON-CONTROL/NON-AFFILIATE INVESTMENTS:					
B-Dry, LLC	Buildings and Real Estate	Senior Term Debt (12.3%, Due 5/2014)(D)	6,477	6,477	6,356
		Senior Term Debt (12.3%, Due 5/2014)(D)	2,860	2,860	2,806
		Common Stock Warrants (55 shares)(C)(F)		300	115
				9,637	9,277
Total Non-Control/Non-Affiliate Investments (represents 4.1% of total investments at fair value)				**$ 9,637**	**$ 9,277**
TOTAL INVESTMENTS				**$ 266,395**	**$ 225,652**

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

(B) Percentages represent the weighted average interest rates in effect at March 31, 2012, and due date represents the contractual maturity date.

(C) Security is non-income producing.

(D) Fair value based primarily on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. as of March 31, 2012.

(E) 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) 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.

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

GLADSTONE INVESTMENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

(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 a 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 take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. To a much lesser extent, we also invest in senior and subordinated syndicated loans. Our investment objectives are (a) to achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time and (b) to provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. We aim to maintain a portfolio consisting of approximately 80% debt investment and 20% equity investment, at cost.

Gladstone Business Investment, LLC (Business Investment), a wholly-owned subsidiary of ours, was established on August 11, 2006, for the sole purpose of owning our portfolio of investments in connection with our line of credit. The financial statements of Business Investment are consolidated with those of Gladstone Investment.

We are externally managed by Gladstone Management Corporation (the Adviser), an affiliate of ours.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933, as amended (the Securities Act). 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 under the Securities Act, and the authoritative accounting guidance provided by the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Investment Companies, we are not permitted to consolidate any portfolio company investments, including those in which we have a controlling interest. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three and nine months ended December 31, 2012, 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, 2012, as filed with the U.S. Securities and Exchange Commission (the SEC) on May 21, 2012.

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

Reclassifications

Certain amounts in the prior period s financial statements have been reclassified to conform to the presentation for the three and nine months ended December 31, 2012, with no effect to net increase in net assets resulting from operations.

Investment Valuation Policy

We carry our investments at fair value to the extent that market quotations are readily available and reliable and otherwise at fair value as determined in good faith by our board of directors (the Board of Directors). In determining the fair value of our investments, the Adviser has established an investment valuation policy (the Policy). The Policy has been approved by our Board of Directors, and each quarter our Board of Directors reviews whether the Adviser has applied the Policy consistently and votes whether to accept the recommended valuation of our investment portfolio. Such determination of fair values may involve subjective judgments and estimates.

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

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

Publicly traded securities: The Adviser determines the value of publicly traded securities based on the closing price for the security on the exchange or securities market on which it is listed and primarily traded on the valuation date. To the extent that we own restricted securities that are not freely tradable, but for which a public market otherwise exists, the Adviser will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature. As of December 31 and March 31, 2012, we did not have any investments in publicly traded securities.

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

In the event these limited markets become illiquid such that market prices are no longer readily available, the Adviser will value our syndicated loans using alternative methods, such as estimated net present values of the future cash flows or discounted cash flows (DCF). The use of a DCF methodology follows that prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, which provides guidance on the use of a reporting entity s own assumptions about future cash flows and risk-adjusted discount rates when relevant observable inputs, such as quotes in active markets, are not available. When relevant observable market data does not exist, an alternative outlined in ASC 820 is the valuation of investments based on DCF. For the purposes of using DCF to provide fair value estimates, the Adviser considers multiple inputs, such as a risk-adjusted discount rate that incorporates adjustments that market participants would make, both for nonperformance and liquidity risks. As such, the Adviser develops a modified discount rate approach that incorporates risk premiums including, among other things, increased probability of default, higher loss given default or increased liquidity risk. The DCF valuations applied to the syndicated loans provide an estimate of what the Adviser believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Adviser applies the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity. At December 31 and March 31 2012, we had no syndicated investments.

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

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

(B) **Portfolio investments in controlled companies comprised of a bundle of investments, which can include debt and equity securities:** The fair value of these investments is determined based on the total enterprise value (TEV) of the portfolio company, or issuer, utilizing a liquidity waterfall approach under ASC 820 for our Non-Public Debt Securities and equity or equity-like securities (e.g., preferred equity, common equity or other equity-like securities) that are purchased together as part of a package, where we have control or could gain control through an option or warrant security; both the debt and equity securities of the portfolio investment would exit in the mergers and acquisitions market as the principal market, generally through a sale or recapitalization of the portfolio company. We generally exit the debt and equity securities of an issuer together. Applying the liquidity waterfall approach to all of the investments of an issuer, the Adviser first calculates the TEV of the issuer by incorporating some or all of the following factors:

- the issuer s ability to make payments;
- the earnings of the issuer;
- recent sales to third parties of similar securities;
- the comparison to publicly traded securities; and
- DCF or other pertinent factors.

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

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

(D) Portfolio investments comprised of non-publicly traded, non-control equity securities of other funds: The Adviser generally values any uninvested capital of the non-control fund at par value and values any invested capital at the value provided by the non-control fund. At December 31 and March 31, 2012, we had no non-control equity securities of other funds.

Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly and materially from the values that would have been obtained had a ready market for the securities existed. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that the Adviser might reasonably expect us to receive upon the current sale of the security in an orderly transaction between market participants at the measurement date.

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

Interest Income Recognition

Interest income, adjusted for amortization of premiums and acquisition costs, the accretion of discounts and the amortization of amendment fees, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past-due principal and interest are paid and, in management s judgment, are likely to remain current, or due to a restructuring such that the interest income is deemed to be collectible. At December 31, 2012, loans to two portfolio companies, ASH Holdings Corp. (ASH) and Tread Corporation (Tread), were on non-accrual. These non-accrual loans had an aggregate cost basis of $23.7 million, or 10.4% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0. During the three months ended December 31, 2012, we placed Tread on non-accrual and took Country Club Enterprises, LLC (CCE) off non-accrual. At March 31, 2012, ASH and CCE were on non-accrual with an aggregate debt cost basis of $16.4 million, or 8.6% of the cost basis of debt investments in our portfolio, and an aggregate fair value of $0.

We did not hold any loans in our portfolio that contained a PIK provision at December 31, 2012, and no PIK income was recorded during the three and nine months ended December 31, 2012. During the three and nine months ended December 31, 2011, we recorded PIK income of $0 and $7, respectively. PIK interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be included in our calculation of distributable income for purposes of complying with our distribution requirements, even though we have not yet collected the cash. The sole loan with a PIK provision was paid off, at par, during the quarter ended September 30, 2011.

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 recorded $0 and $0.8 million of success fees during the three and nine months ended December 31, 2012, respectively, representing prepayments received from Mathey Investments, Inc. (Mathey) and Cavert II Holding Corp. (Cavert). During the three and nine months ended December, 31, 2011, we recorded success fees of $0 and $0.4 million, respectively, representing prepayments received from Mathey and Cavert. As of December 31, 2012, we have an off-balance sheet success fee receivable of approximately $12.3 million.

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. We recorded $0.7 and $0.8 million in dividend income during the three and nine months ended December 31, 2012, on accrued preferred shares of Acme Cryogenics, Inc. (Acme) and Drew Foam Companies, Inc. (Drew Foam). We recorded $0 and $0.7 million in dividend income during the three and nine months ended December 31, 2011, on accrued preferred shares in connection with the recapitalization of Cavert.

Both success fees and dividends are recorded in Other income in our accompanying *Condensed Consolidated Statements of Operations*.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), which results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a significant impact on our financial position or results of operations.

NOTE 3. INVESTMENTS

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

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

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

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

We transfer investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the three and nine months ended December 31, 2012 and 2011, there were no transfers in or out of Level 1, 2 and 3.

The following table presents the financial assets carried at fair value as of December 31 and March 31, 2012, by caption on our accompanying *Condensed Consolidated Statements of Assets and Liabilities* and by security type for each of the three applicable levels of hierarchy established by ASC 820 that we used to value our financial assets:

	December 31, 2012			March 31, 2012		
	Level 1	**Level 3**	**Total Recurring Fair Value Measurement Reported in *Condensed Consolidated Statements of Assets and Liabilities***	**Level 1**	**Level 3**	**Total Recurring Fair Value Measurement Reported in *Condensed Consolidated Statements of Assets and Liabilities***
Control Investments						
Senior debt	$	$ 74,975	$ 74,975	$	$ 47,880	$ 47,880
Senior subordinated debt		67,313	67,313		60,149	60,149
Preferred equity		64,856	64,856		36,269	36,269
Common equity/equivalents		19,143	19,143		13,246	13,246
Total Control investments		**226,287**	**226,287**		**157,544**	**157,544**
Affiliate Investments						
Senior debt		24,827	24,827		37,844	37,844
Senior subordinated debt		9,595	9,595		10,512	10,512
Preferred equity		4,564	4,564		10,400	10,400
Common equity/equivalents					75	75
Total Affiliate investments		**38,986**	**38,986**		**58,831**	**58,831**
Non-Control/Non-Affiliate Investments						
Senior debt		7,987	7,987		9,162	9,162
Common equity/equivalents					115	115
Total Non-Control/Non-Affiliate Investments		**7,987**	**7, 987**		**9,277**	**9,277**
Total Investments at fair value	**$**	**$ 273,260**	**$ 273,260**	**$**	**$ 225,652**	**$ 225,652**
Cash Equivalents	50,000		50,000	85,000		85,000
Total Investments and Cash Equivalents	**$ 50,000**	**$ 273,260**	**$ 323,260**	**$ 85,000**	**$ 225,652**	**$ 310,652**

In accordance with ASU 2011-04, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 31, 2012. In addition to the techniques and inputs noted in the table below, according to our valuation policy, the Adviser may also use other valuation techniques and methodologies when determining our fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt-related calculations and on the cost basis for all equity-related calculations for the particular input.

Valuation Technique/Methodology	Fair Value as of December 31, 2012	Unobservable Input	Range		Weighted Average
	Quantitative Information about Level 3 Fair Value Measurements				
TEV	**$ 212,879**(A)	EBITDA multiples(C)	4.0x	8.3x	5.9x
		EBITDA(C)	($2,674)	$6,965	$ 3,733
SPSE(B)	**60,381**	EBITDA(C)	($11)	$5,654	$ 2,497
		Risk Ratings(D)	2.8	6.9	5.0
Total Fair Value for Level 3 Investments	**$ 273,260**				

(A) Includes one new portfolio company investment which was valued at cost, as it was determined that the price paid during the three months ended December 31, 2012, best represents fair value as of December 31, 2012.

(B) SPSE makes an independent assessment of the data our Adviser submits to them (which includes the financial and operational performance, as well as the Adviser s internally assessed risk ratings of the portfolio companies see footnote (D) below) and its own independent data to form an opinion as to what they consider to be the market values for our securities. With regard to its work, SPSE has stated that the data submitted to us is proprietary in nature.

(C) Adjusted earnings before interest expense, taxes, depreciation and amortization (EBITDA) is an unobservable input, which is generally based on the most recently available trailing twelve month financial statements submitted to the Adviser from the portfolio companies. EBITDA multiples, generally indexed, represent the Adviser s estimation of where market participants might price these investments. For our bundled debt and equity investments, the EBITDA and EBITDA multiples impact the TEV fair value determination and the value of the issuer s debt, equity, or equity-like securities are valued in accordance with the Adviser s liquidity waterfall approach.

(D) As part of the Adviser s valuation procedures, it risk rates all of our investments in debt securities. The Adviser uses a proprietary risk rating system for all other debt securities. The Adviser s risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. The risk rating system covers both qualitative and quantitative aspects of the portfolio company business and the securities we hold.

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

Changes in Level 3 Fair Value Measurements of Investments

The following tables provide the changes in fair value, broken out by security type, during the three month periods ended December 31, 2012 and 2011 for all investments for which we determine fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (that is, components that are actively quoted and can be validated to external sources). In these cases, we categorize the fair value measurement in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Accordingly, the gains and losses in the tables below include changes in fair value, due in part to observable factors that are part of the valuation methodology.

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

	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three months ended December 31, 2012:					
Fair value as of September 30, 2012	$ 97,257	$ 93,740	$ 64,300	$ 11,389	$ 266,686
Total (losses) gains:					
Net realized gains[(A)(D)]				96	96
Net unrealized (depreciation) appreciation[(B)]	(3,471)	(9,631)	5,514	7,634	46
New investments, repayments and settlements[(C)]:					
Issuances / Originations	14,650	1,500	1,373	153	17,676
Settlements / Repayments	(647)	(8,701)			(9,348)
Sales[(D)]			(1,767)	(129)	(1,896)
Fair value as of December 31, 2012	**$ 107,789**	**$ 76,908**	**$ 69,420**	**$ 19,143**	**$ 273,260**
Nine months ended December 31, 2012:					
Fair value as of March 31, 2012	$ 94,886	$ 70,661	$ 46,669	$ 13,436	$ 225,652
Total (losses) gains:					
Net realized gains[(A)(D)]				848	848
Net unrealized (depreciation) appreciation[(B)]	(11,547)	(6,601)	3,630	4,963	(9,555)
New investments, repayments and settlements[(C)]:					
Issuances / Originations	33,120	28,315	18,926	278	80,639
Settlements / Repayments	(8,670)	(12,467)			(21,137)
Sales[(D)]			(2,305)	(882)	(3,187)
Transfers[(E)]		(3,000)	2,500	500	
Fair value as of December 31, 2012	**$ 107,789**	**$ 76,908**	**$ 69,420**	**$ 19,143**	**$ 273,260**

	Senior Debt	Senior Subordinated Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three months ended December 31, 2011:					
Fair value as of September 30, 2011	$ 85,075	$ 80,085	$ 47,452	$ 5,444	$ 218,056
Total (losses) gains:					
Net realized losses[(A)(D)]				(105)	(105)
Net unrealized (depreciation) appreciation[(B)]	(1,521)	2,477	(5,606)	6,328	1,678
Reversal of previously-recorded depreciation upon realization[(B)]	30			61	91
New investments, repayments and settlements[(C)]:					
Issuances / Originations	17,350		1,599		18,949
Settlements / Repayments	(3,393)	(8,000)			(11,393)
Sales[(D)]				(505)	(505)
Transfers[(F)]		(4,000)	4,000		
Fair value as of December 31, 2011	**$ 97,541**	**$ 70,562**	**$ 47,445**	**$ 11,223**	**$ 226,771**
Nine months ended December 31, 2011:					
Fair value as of March 31, 2011	$ 58,627	$ 62,806	$ 25,398	$ 6,454	$ 153,285
Total (losses) gains:					
Net realized (losses) gains[(A)(D)]	(1)	5		5,087	5,091
Net unrealized appreciation (depreciation) [(B)]	(734)	(1,705)	4,868	10,645	13,074
Reversal of previously-recorded depreciation (appreciation) upon realization[(B)]	126	(14)	(686)	(5,447)	(6,021)

New investments, repayments and settlements(C):					
Issuances / Originations	47,561	22,385	16,131	250	86,327
Settlements / Repayments	(8,038)	(8,915)			(16,953)
Sales(D)			(2,266)	(5,766)	(8,032)
Transfers(F)		(4,000)	4,000		
Fair value as of December 31, 2011	**$ 97,541**	**$ 70,562**	**$ 47,445**	**$ 11,223**	**$ 226,771**

(A) Included in Net realized (loss) gain on our accompanying *Condensed Consolidated Statements of Operations* for the periods ended December 31, 2012 and 2011.

(B) Included in Net unrealized appreciation (depreciation) on our accompanying *Condensed Consolidated Statements of Operations* for the periods ended December 31, 2012 and 2011.

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

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

(E) Transfers represent $3.0 million of senior subordinated term debt of Tread, at cost as of June 30, 2012, that was converted into preferred and common equity during the quarter ended September 30, 2012.

(F) Transfers represent $4.0 million of senior subordinated term debt of CCE, at cost as of September 30, 2011, that was converted to preferred equity during the quarter ended December 31, 2011.

Investment Activity

During the nine months ended December 31, 2012, the following significant transactions occurred:

In May 2012, we invested $9.5 million in a new Affiliate investment, Packerland Whey Products, Inc. (Packerland), through a combination of debt and equity. Packerland, headquartered in Luxemburg, Wisconsin, is a processor of raw fluid whey, specializing in the production of protein supplements for dairy and beef cattle. In December 2012, our $7.0 million debt investment was paid off at par.

In July 2012, we invested $21.3 million in a new Control investment, Drew Foam, through a combination of debt and equity. Drew Foam, headquartered in Monticello, Arkansas, is an expanded polystyrene foam molder and fabricator for a variety of applications in construction and packaging. In September 2012, $4.0 million of the debt and the line of credit was refinanced with a third-party. In December 2012, $1.8 million of our equity investment was sold to a third-party at cost.

In July 2012, we invested $22.5 million in a new Control investment, Ginsey Holdings, Inc. (Ginsey), through a combination of debt and equity. Ginsey, headquartered in Bellmawr, New Jersey, designs and markets a broad line of branded juvenile and adult bath products. In August 2012, we participated out $5.0 million of the debt to a third-party.

In August 2012, we restructured our investment in Tread, converting $3.0 million of senior subordinated debt into preferred and common shares of Tread in a non-cash transaction.

In November 2012, we invested $16.5 million in a new Control investment, Frontier Packaging, Inc. (Frontier), through a combination of debt and equity. Frontier, headquartered in Seattle, Washington, is a supplier of a range of time sensitive packaging materials to the Alaskan seafood market, adding value through its expertise in product consolidation and logistics.

Investment Concentrations

As of December 31, 2012, our investment portfolio consisted of investments in 21 portfolio companies located in 15 states across 13 different industries with an aggregate fair value of $273.3 million, of which SOG Specialty K&T, LLC (SOG), Acme Cryogenics, Inc. (Acme), and Venyu Solutions, Inc. (Venyu), collectively, comprised approximately $82.2 million, or 30.1%, of our total investment portfolio at fair value. The following table outlines our investments by security type at December 31 and March 31, 2012:

	December 31, 2012				**March 31, 2012**			
	Cost		**Fair Value**		**Cost**		**Fair Value**	
Senior debt	**$ 134,924**	**41.7%**	**$ 107,789**	**39.5%**	$ 110,475	41.5%	$ 94,886	42.0%
Senior subordinated debt	**93,310**	**28.8**	**76,908**	**28.1**	80,461	30.2	70,661	31.3

Total debt	**228,234**	**70.5**	**184,697**	**67.6**	190,936	71.7	165,547	73.3
Preferred equity	**89,905**	**27.8**	**69,420**	**25.4**	71,084	26.6	46,669	20.7
Common equity/equivalents	**5,419**	**1.7**	**19,143**	**7.0**	4,375	1.7	13,436	6.0
Total equity/equivalents	**95,324**	**29.5**	**88,563**	**32.4**	75,459	28.3	60,105	26.7
Total investments	**$ 323,558**	**100.0%**	**$ 273,260**	**100.0%**	$ 266,395	100.0%	$ 225,652	100.0%