GLADSTONE INVESTMENT CORPORATION\DE
Form 10-Q
February 01, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

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

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

**COMMISSION FILE NUMBER: 000-51233**

# GLADSTONE INVESTMENT CORPORATION

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

| DELAWARE | 83-0423116 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer 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 30, 2012, was 22,080,133.

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

**(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)**

**(UNAUDITED)**

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

| | | |
|---|---|---|
| **TOTAL NET ASSETS** | **$ 211,601** | $ 198,829 |
| **NET ASSET VALUE PER SHARE AT END OF PERIOD** | **$ 9.58** | $ 9.00 |

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

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)**

**(UNAUDITED)**

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

| | | | | |
|---|---|---|---|---|
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | **$ 5,495** | $ 15,135 | **$ 22,377** | $ 13,643 |
| | | | | |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE | | | | |
| Basic and diluted | **$ 0.25** | $ 0.69 | **$ 1.01** | $ 0.62 |
| | | | | |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING | | | | |
| Basic and diluted | **22,080,133** | 22,080,133 | **22,080,133** | 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.*

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

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

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

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GLADSTONE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLAR AMOUNTS IN THOUSANDS)

(UNAUDITED)

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

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

(B) Non-cash activities for the nine months ended December 31, 2010, represent real property distributed to shareholders of A. Stucki Holding Corp. prior to its sale in June 2010. This property is included in the Company s *Condensed Consolidated Schedule of Investments* under Neville Limited at March 31, 2011 and was sold during the three months ended December 31, 2011.

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS**

**DECEMBER 31, 2011**

**(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)**

**(UNAUDITED)**

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

| | | | | | |
|---|---|---|---|---|---|
| | Manufacturing pipe-cutting and pipe-fitting equipment | Revolving Credit Facility, $1,750 available (10.0%, Due 3/2012) | | | |
| | | Senior Term Debt (10.0%, Due 3/2013) | 2,375 | 2,375 | 2,375 |
| | | Senior Term Debt (12.0%, Due 3/2014) | 3,727 | 3,727 | 3,727 |
| | | Senior Term Debt (2.5%, Due 3/2014)(E) | 3,500 | 3,500 | 3,500 |
| | | Common Stock (29,102 shares)(C)(F) | | 777 | 269 |
| | | | | 10,379 | 9,871 |
| Mitchell Rubber Products, Inc. | Manufacturing rubber compounds | Subordinated Term Debt (13.0%, Due 10/2016)(D) | 13,560 | 13,560 | 13,645 |
| | | Preferred Stock (27,900 shares)(C)(F) | | 2,790 | 2,913 |
| | | Common Stock (27,900 shares)(C)(F) | | 28 | 1,142 |
| | | | | 16,378 | 17,700 |
| Precision Southeast, Inc. | Manufacturing injection molding and plastics | Revolving Credit Facility, $251 available (7.5%, Due 02/2012) | 749 | 749 | 749 |
| | | Senior Term Debt (14.0%, Due 12/2015) | 7,775 | 7,775 | 7,775 |
| | | Preferred Stock (19,091 shares)(C)(F) | | 1,909 | 2,063 |
| | | Common Stock (90,909 shares)(C)(F) | | 91 | 289 |
| | | | | 10,524 | 10,876 |
| SBS, Industries, LLC | Manufacturing specialty fasteners and threaded screw products | Revolving Credit Facility, $250 available (10.0%, Due 8/2013) | 250 | 250 | 250 |
| | | Senior Term Debt (14.0%, Due 8/2016) | 11,355 | 11,355 | 11,355 |
| | | Preferred Stock (19,935 shares)(C)(F) | | 1,994 | 2,047 |
| | | Common Stock (221,500 shares)(C)(F) | | 221 | 2,279 |
| | | | | 13,820 | 15,931 |
| SOG Specialty K&T, LLC | Manufacturing specialty knives and tools | Senior Term Debt (13.3%, Due 8/2016) | 6,200 | 6,200 | 6,200 |
| | | Senior Term Debt (14.8%, Due 8/2016) | 12,199 | 12,199 | 12,199 |
| | | Preferred Stock (9,749 shares)(C)(F) | | 9,749 | 10,144 |
| | | | | 28,148 | 28,543 |
| Tread Corp. | Manufacturing storage and transport equipment | Senior Subordinated Term Debt (12.5%, Due 5/2013) | 7,750 | 7,750 | 7,750 |
| | | Preferred Stock (832,765 shares)(C)(F) | | 833 | 1,063 |
| | | Common Stock (129,067 shares)(C)(F) | | 1 | 544 |
| | | | | 3 | 5,084 |

| | | | |
|---|---|---|---|
| | Common Stock Warrants (1,247,727 shares)(C)(F) | | |
| | | 8,587 | 14,441 |

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)**

**DECEMBER 31, 2011**

**(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)**

**(UNAUDITED)**

| Company[(A)] | Industry | Investment[(B)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **CONTROL INVESTMENTS (Continued):** | | | | | |
| Venyu Solutions, Inc. | Service online servicing suite | Senior Subordinated Term Debt (11.3%, Due 10/2015) | $ 7,000 | $ 7,000 | $ 7,000 |
| | | Senior Subordinated Term Debt (14.0%, Due 10/2015) | 12,000 | 12,000 | 12,000 |
| | | Preferred Stock (5,400 shares)[(C)(F)] | | 6,000 | 5,654 |
| | | | | 25,000 | 24,654 |
| **Total Control Investments (represented 68.9% of total investments at fair value)** | | | | **$ 184,221** | **$ 156,345** |
| **AFFILIATE INVESTMENTS:** | | | | | |
| Cavert II Holding Corp.[(H)] | Manufacturing bailing wire | Senior Term Debt (10.0%, Due 4/2016)[(D)(E)] | $ 2,150 | $ 2,150 | $ 2,171 |
| | | Senior Subordinated Term Debt (13.0%, Due 4/2016)[(D)] | 4,671 | 4,671 | 4,711 |
| | | Subordinated Term Debt (11.8%, Due 4/2016)[(D)] | 5,700 | 5,700 | 5,736 |
| | | Preferred Stock (18,446 shares)[(C)(F)] | | 1,844 | 2,548 |
| | | | | 14,365 | 15,166 |
| Channel Technologies Group, LLC | Manufacturing acoustic products | Revolving Credit Facility, $1,050 available (7.0%, Due 12/2012)[(I)] | 200 | 200 | 200 |
| | | Senior Term Debt (8.3%, Due 12/2014)[(I)] | 6,000 | 6,000 | 6,000 |
| | | Senior Term Debt (12.3%, Due 12/2016)[(I)] | 10,750 | 10,750 | 10,750 |
| | | Preferred Stock (1,599 shares)[(C)(F)(I)] | | 1,599 | 1,599 |
| | | Common Stock (1,598,616 shares)[(C)(F)(I)] | | | |
| | | | | 18,549 | 18,549 |
| Danco Acquisition Corp. | Manufacturing machining and sheet metal work | Revolving Credit Facility, $0 available (10.0%, Due 10/2012)[(D)] | 1,500 | 1,500 | 1,350 |
| | | | 2,575 | 2,575 | 2,318 |

| | | | | | |
|---|---|---|---|---|---|
| | | Senior Term Debt (10.0%, Due 10/2012)(D) | | | |
| | | Senior Term Debt (12.5%, Due 4/2013)(D)(E) | 8,891 | 8,891 | 8,002 |
| | | Preferred Stock (25 shares)(C)(F) | | 2,500 | |
| | | Common Stock Warrants (420 shares)(C)(F) | | 3 | |
| | | | | 15,469 | 11,670 |
| Noble Logistics, Inc. | Service aftermarket auto parts delivery | Senior Term Debt (9.2%, Due 12/2012)(D) | 7,227 | 7,227 | 4,698 |
| | | Senior Term Debt (10.5%, Due 12/2012)(D) | 3,650 | 3,650 | 2,372 |
| | | Senior Term Debt (10.5%, Due 12/2012)(D)(E) | 3,650 | 3,650 | 2,372 |
| | | Preferred Stock (1,075,000 shares)(C)(F) | | 1,750 | 3,707 |
| | | Common Stock (1,682,444 shares)(C)(F) | | 1,682 | 134 |
| | | | | 17,959 | 13,283 |
| Quench Holdings Corp. | Service sales, installation and service of water coolers | Preferred Stock (388 shares)(C)(F) | | 2,950 | 2,515 |
| | | Common Stock (35,242 shares)(C)(F) | | 447 | |
| | | | | 3,397 | 2,515 |
| **Total Affiliate Investments (represented 27.0% of total investments at fair value)** | | | | **$ 69,739** | **$ 61,183** |
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS:** | | | | | |
| B-Dry, LLC | Service basement waterproofer | Senior Term Debt (12.3%, Due 5/2014)(D) | 6,494 | 6,494 | 6,364 |
| | | Senior Term Debt (12.3%, Due 5/2014)(D) | 2,870 | 2,870 | 2,812 |
| | | Common Stock Warrants (55 shares)(C)(F) | | 300 | 67 |
| | | | | 9,664 | 9,243 |
| **Total Non-Control/Non-Affiliate Investments (represented 4.1% of total investments at fair value)** | | | | **$ 9,664** | **$ 9,243** |
| **TOTAL INVESTMENTS** | | | | **$ 263,624** | **$ 226,771** |

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

(B) Percentages represent the weighted average interest rates in effect at December 31, 2011, and due dates represent 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. at December 31, 2011.

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

(F) Aggregates all shares of such class of stock owned by the Company 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 by the Company without regard to specific series of such class of stock such warrants allow the Company to purchase.

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

(H) In April 2011, the Company sold its common equity investment, received partial redemption of its preferred stock and invested new subordinated debt in Cavert as part of a recapitalization. As a result of the recapitalization, Cavert was reclassified as an Affiliate investment during the three months ended June 30, 2011.

(I) New proprietary portfolio investment valued at cost, as it was determined that the price paid by the Company during the three months ended December 31, 2011, best represents fair value as of December 31, 2011.

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS**

**MARCH 31, 2011**

**(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)**

**(UNAUDITED)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **CONTROL INVESTMENTS:** | | | | | |
| Acme Cryogenics, Inc. | Manufacturing manifolds and pipes for industrial gasses | Senior Subordinated Term Debt (11.5%, Due 3/2012) | $ 14,500 | $ 14,500 | $ 14,500 |
| | | Senior Subordinated Term Debt (12.5%, Due 12/2011) | 415 | 415 | 415 |
| | | Preferred Stock (898,814 shares)(D)(G) | | 6,984 | 4,991 |
| | | Common Stock (418,072 shares)(D)(G) | | 1,045 | |
| | | Common Stock Warrants (452,683 shares)(D)(G) | | 24 | |
| | | | | 22,968 | 19,906 |
| ASH Holdings Corp. | Retail and Service school buses and parts | Revolving Credit Facility, $717 available (3.0%, Due 3/2013)(H) | 3,283 | 3,241 | |
| | | Senior Subordinated Term Debt (2.0%, Due 3/2013)(H) | 6,250 | 6,060 | |
| | | Preferred Stock (2,500 shares)(D)(G) | | 2,500 | |
| | | Common Stock (1 share) (D)(G) | | | |
| | | Common Stock Warrants (73,599 shares)(D)(G) | | 4 | |
| | | Guaranty ($750) | | | |
| | | | | 11,805 | |
| Cavert II Holding Corp. | Manufacturing bailing wire | Senior Term Debt (10.0%, Due 10/2012)(F) | 2,650 | 2,650 | 2,650 |
| | | Senior Subordinated Term Debt (13.0%, Due 10/2014) | 4,671 | 4,671 | 4,671 |
| | | Preferred Stock (41,102 shares)(D)(G) | | 4,110 | 5,354 |
| | | Common Stock (69,126 shares)(D)(G) | | 69 | 5,577 |
| | | | | 11,500 | 18,252 |
| Country Club Enterprises, LLC | Service golf cart distribution | Senior Subordinated Term Debt (16.3%, Due 11/2014)(E) | 8,000 | 8,000 | 7,560 |
| | | Preferred Stock (2,380,000 shares)(D)(G) | | 3,725 | |
| | | Guaranty ($3,914) | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 11,725 | 7,560 |
| Galaxy Tool Holding Corp. | Manufacturing aerospace and plastics | Senior Subordinated Term Debt (13.5%, Due 8/2013) | 5,220 | 5,220 | 5,220 |
| | | Preferred Stock (4,111,907 shares)(D)(G) | | 19,658 | 1,439 |
| | | Common Stock (48,093 shares)(D)(G) | | 48 | |
| | | | | 24,926 | 6,659 |
| Mathey Investments, Inc. | Manufacturing pipe-cutting and pipe-fitting equipment | Revolving Credit Facility, $718 available (10.0%, Due 3/2012)(E) | 1,032 | 1,032 | 1,022 |
| | | Senior Term Debt (10.0%, Due 3/2013)(E) | 2,375 | 2,375 | 2,345 |
| | | Senior Term Debt (12.0%, Due 3/2014)(E) | 3,727 | 3,727 | 3,643 |
| | | Senior Term Debt (2.5%, Due 3/2014)(E)(F) | 3,500 | 3,500 | 3,421 |
| | | Common Stock (37 shares)(D)(G) | | 500 | |
| | | Common Stock Warrants (21 shares)(D)(G) | | 277 | |
| | | | | 11,411 | 10,431 |
| Neville Limited | Real Estate investments | Common Stock (100 shares)(D)(G) | | 610 | 534 |
| Precision Southeast, Inc. | Manufacturing injection molding and plastics | Revolving Credit Facility, $251 available (7.5%, Due 12/2011) | 749 | 749 | 749 |
| | | Senior Term Debt (14.0%, Due 12/2015) | 7,775 | 7,775 | 7,775 |
| | | Preferred Stock (19,091 shares)(D)(G) | | 1,909 | 1,948 |
| | | Common Stock (90,909 shares)(D)(G) | | 91 | 305 |
| | | | | 10,524 | 10,777 |
| Tread Corp. | Manufacturing storage and transport equipment | Senior Subordinated Term Debt (12.5%, Due 5/2013)(E) | 5,000 | 5,000 | 4,931 |
| | | Preferred Stock (832,765 shares)(D)(G) | | 833 | |
| | | Common Stock (129,067 shares)(D)(G) | | 1 | |
| | | Common Stock Warrants (1,022,727 shares)(D)(G) | | 3 | |
| | | | | 5,837 | 4,931 |
| Venyu Solutions, Inc. | Service online servicing suite | Senior Subordinated Term Debt (11.3%, Due 10/2015) | 7,000 | 7,000 | 7,000 |
| | | Senior Subordinated Term Debt (14.0%, Due 10/2015) | 12,000 | 12,000 | 12,000 |
| | | Preferred Stock (5,400 shares)(D)(G) | | 6,000 | 6,012 |
| | | | | 25,000 | 25,012 |
| **Total Control Investments (represented 67.9% of total investments at fair value)** | | | | **$ 136,306** | **$ 104,062** |

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**GLADSTONE INVESTMENT CORPORATION**

**CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS (Continued)**

**MARCH 31, 2011**

**(DOLLAR AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)**

**(UNAUDITED)**

| Company(A) | Industry | Investment(B) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **AFFILIATE INVESTMENTS:** | | | | | |
| Danco Acquisition Corp. | Manufacturing machining and sheet metal work | Revolving Credit Facility, $400 available (10.0%, Due 10/2011)(E) | $ 1,100 | $ 1,100 | $ 1,084 |
| | | Senior Term Debt (10.0%, Due 10/2012)(E) | 2,925 | 2,925 | 2,881 |
| | | Senior Term Debt (12.5%, Due 4/2013)(E) | 8,961 | 8,961 | 8,781 |
| | | Preferred Stock (25 shares)(D)(G) | | 2,500 | |
| | | Common Stock Warrants (420 shares)(D)(G) | | 2 | |
| | | | | 15,488 | 12,746 |
| Noble Logistics, Inc. | Service aftermarket auto parts delivery | Revolving Credit Facility, $300 available (4.3%, Due 6/2011)(E) | 300 | 300 | 206 |
| | | Senior Term Debt (9.2%, Due 12/2012)(E) | 7,227 | 7,227 | 4,951 |
| | | Senior Term Debt (10.5%, Due 12/2012)(E) | 3,650 | 3,650 | 2,500 |
| | | Senior Term Debt (10.5%, Due 12/2012)(E)(F) | 3,650 | 3,650 | 2,500 |
| | | Preferred Stock (1,075,000 shares)(D)(G) | | 1,750 | 3,026 |
| | | Common Stock (1,682,444 shares)(D)(G) | | 1,683 | |
| | | | | 18,260 | 13,183 |
| Quench Holdings Corp. | Service sales, installation and service of water coolers | Senior Subordinated Term Debt (10.0%, Due 8/2013)(E) | 8,000 | 8,000 | 6,000 |
| | | Preferred Stock (388 shares)(D)(G) | | 2,950 | 2,627 |
| | | Common Stock (35,242 shares)(D)(G) | | 447 | |
| | | | | 11,397 | 8,627 |
| **Total Affiliate Investments (represented 22.5% of total investments at fair value)** | | | | **$ 45,145** | **$ 34,556** |

| | | | | | |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS:** | | | | | |
| American Greetings Corporation | Manufacturing and design greeting Cards | Senior Notes (7.4%, Due 6/2016)(C) | $ 3,043 | $ 3,043 | $ 3,073 |
| B-Dry, LLC | Service basement waterproofer | Senior Term Debt (11.0%, Due 5/2014)(E) | 6,545 | 6,545 | 6,512 |
| | | Senior Term Debt (11.5%, Due 5/2014)(E) | 3,050 | 3,050 | 3,035 |
| | | Common Stock Warrants (55 shares)(D)(G) | | 300 | 39 |
| | | | | 9,895 | 9,586 |
| Fifth Third Processing Solutions, LLC | Service electronic payment processing | Senior Subordinated Term Debt (8.3%, Due 11/2017)(C) | 500 | 495 | 509 |
| Survey Sampling, LLC | Service telecommunications-based sampling | Senior Term Debt (10.7%, Due 12/2012)(C) | 2,306 | 2,308 | 1,499 |
| **Total Non-Control/Non-Affiliate Investments (represented 9.6% of total investments at fair value)** | | | | **$ 15,741** | **$ 14,667** |
| **TOTAL INVESTMENTS** | | | | **$ 197,192** | **$ 153,285** |

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

(B) Percentages represent the weighted average interest rates in effect at March 31, 2011, and due dates represent the contractual maturity date.

(C) Valued based on the indicative bid price on or near March 31, 2011, offered by the respective syndication agent s trading desk or secondary desk.

(D) Security is non-income producing.

(E) Fair value based primarily on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc. at March 31, 2011.

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

(G) Aggregates all shares of such class of stock owned by the Company 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 by the Company without regard to specific series of such class of stock such warrants allow the Company to purchase.

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

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

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**GLADSTONE INVESTMENT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**DECEMBER 31, 2011**

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

**NOTE 1. ORGANIZATION**

Gladstone Investment Corporation (the Company ) was incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005, and completed an initial public offering on June 22, 2005. The Company is 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, the Company has elected to be treated for tax purposes as a regulated investment company ( RIC ) under the Internal Revenue Code of 1986, as amended (the Code ). The Company s investment objective is to achieve a high level of current income and capital gains by investing in debt and equity securities of established private businesses in the United States.

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

The Company is externally managed by Gladstone Management Corporation (the Adviser ), an affiliate of the Company.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Unaudited Interim Financial Statements and Basis of Presentation*

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ( 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, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant 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 AICPA Audit and Accounting Guide for Investment Companies, the Company is not permitted to consolidate any portfolio company investments, including those in which the Company has a controlling interest. In the opinion of the Company s management, 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, 2011, 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 the Company s annual report on Form 10-K for the fiscal year ended March 31, 2011, as filed with the Securities and Exchange Commission (the SEC ) on May 23, 2011.

The 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.

*Investment Valuation Policy*

The Company carries its 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 the Company s board of directors (the Board of Directors ). In determining the fair value of the Company s investments, the Adviser has established an investment valuation policy (the Policy ). The Policy has been approved by the Board of Directors, and each quarter the Board of Directors reviews whether the Adviser has applied the Policy consistently and votes whether to accept the recommended valuation of the Company s investment portfolio.

The Company uses generally accepted valuation techniques to value its portfolio unless the Company has specific information about the value of an investment to determine otherwise. From time to time, the Company may accept an appraisal of a business in which the Company holds 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 the Company s investments. When these specific third-party appraisals are obtained, the Company 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 its 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 Company 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 the Company owns restricted securities that are not freely tradable, but for which a public market otherwise exists, the Company will use the market value of that security adjusted for any decrease in value resulting from the restrictive feature.

**Securities for which a limited market exists:** The Company 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 Company 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. If the Company concludes that quotes based on active markets or trading activity may be relied upon, firm bid prices are requested; however, if a firm bid price is unavailable, the Company 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 Company 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.

In the event these limited markets become illiquid to a degree that market prices are no longer readily available, the Company will value its 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 Company 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 Company 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 Company believes a market participant would pay to purchase a syndicated loan in an active market, thereby establishing a fair value. The Company will apply the DCF methodology in illiquid markets until quoted prices are available or are deemed reliable based on trading activity.

At March 31, 2011, the Company determined that the indicative bid prices were reliable indicators of fair value for its syndicate investments. However, because of the private nature of this marketplace (meaning actual transactions are not publicly reported), the Company determined that these valuation inputs were classified as Level 3 within the fair value hierarchy as defined in ASC 820. As of December 31, 2011, the Company had no syndicated investments.

**Securities for which no market exists:** The valuation methodology for securities for which no market exists falls into three 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 and (C) portfolio investments in non-controlled companies comprised of a bundle of investments, which can include debt and equity securities.

**(A)** **Portfolio investments comprised solely of debt securities:** Debt securities that are not publicly traded on an established securities market, or for which a limited market does not exist ( Non-Public Debt Securities ), and that are issued by portfolio companies in which the Company has no equity, or equity-like securities, are fair valued utilizing opinions of value submitted to the Company by Standard & Poor s Securities Evaluations, Inc. ( SPSE ). The Company 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 the Company s 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 the Company has 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 of the portfolio company. In accordance with ASC 820, the Company applies the in-use premise of value, which assumes the debt and equity securities are sold together. Under this liquidity waterfall approach, the Company 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.

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In gathering the sales to third parties of similar securities, the Company may reference industry statistics and use outside experts. TEV is only an estimate of value and may not be the value received in an actual sale. Once the Company has estimated the TEV of the issuer, the Company 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 the Company 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 Company values Non-Public Debt Securities that are purchased together with equity or equity-like securities from the same portfolio company, or issuer, for which the Company does not control or cannot gain control as of the measurement date, using a hypothetical secondary market as the Company s principal market. In accordance with ASC 820, the Company determines its fair value of these debt securities of non-control investments assuming the sale of an individual debt security using the in-exchange premise of value. As such, the Company 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 the Company does not control or cannot gain control as of the measurement date, the Company estimates the fair value of the equity using the in-exchange premise of value 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 Company may utilize comparable values of similar companies, recent investments and indices with similar structures and risk characteristics or DCF valuation techniques and, in absence of other observable market data, its own assumptions.

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 Company might reasonably expect to receive upon the current sale of the security in an orderly transaction between market participants at the measurement date.

Refer to Note 3 below for additional information regarding fair value measurements and the Company s 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 the Company s qualitative assessment indicates that the debtor is unable to service its debt or other obligations, the Company 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, the Company remains 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 collectable. At December 31, 2011, ASH Holdings Corp. ( ASH ) and Country Club Enterprises, LLC ( CCE ) were on non-accrual. These non-accrual loans had an aggregate cost basis of $13.7 million, or 7.3% of the cost basis of debt investments in the Company s portfolio, and an aggregate fair value of $0. At March 31, 2011, ASH was on non-accrual with a debt cost basis of $9.3 million, or 6.7% of the cost basis of debt investments in the Company s portfolio, and a fair value of $0.

The Company did not hold any loans in its portfolio that contained a PIK provision during the three months ended December 31, 2011; however, during the nine months ended December 31, 2011, the Company recorded PIK income of $7. PIK interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as income. To maintain the Company s status as a RIC, this non-cash source of income must be paid out to stockholders in the form of distributions, even though the Company has not yet collected the cash. The sole loan which had a PIK provision was paid off, at par, during the quarter ended September 30, 2011. The Company did not record any PIK income during the three or nine months ended December 31, 2010.

*Other Income Recognition*

The Company records success fees upon receipt. Success fees are contractually due upon a change of control in a portfolio company and are recorded in Other income in the accompanying *Condensed Consolidated Statements of Operations*. During the three and nine months ended December, 31, 2011, the Company recorded success fees of $0 and $0.4 million, respectively, representing prepayments received from Mathey Investments, Inc. ( Mathey ) and Cavert II Holding Corp. ( Cavert ). During the three and nine months ended December 31, 2010, the Company recorded success fees of $2.7 million and $5.4 million, respectively; $1.2 million of which was due to aggregate prepayments received from Mathey and Cavert, and $4.2 million of which resulted from the exits and payoffs of A. Stucki Holding Corp. ( A. Stucki ) and Chase II Holding Corp. ( Chase ).

Dividend income on preferred equity securities is accrued to the extent that such amounts are expected to be collected and if the Company has the option to collect such amounts in cash, and it is recorded in Other income in the accompanying *Condensed Consolidated Statements of Operations*. The Company did not record any dividend income during the three months ended December 31, 2011; however, during the nine months ended December 31, 2011, the Company recorded and collected $0.7 million of dividends on accrued preferred shares in connection with the recapitalization of Cavert. During the quarter ended December 31, 2010, the Company recorded and collected $4.0 million of dividends accrued on preferred shares of Chase. During the nine months ended December 31, 2010, the Company also recorded and collected $0.3 million of dividends on preferred shares of A. Stucki and accrued and received a special dividend of property valued at $0.5 million in connection with the A. Stucki sale.

*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 Company is currently assessing the potential impact that the adoption of ASU 2011-04 may have on the Company s financial position and 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 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

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

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

- *Level 3* inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the asset or liability and can include the Company s own assumptions based upon the best available information.

As of December 31 and March 31, 2011, all of the Company s investments were valued using Level 3 inputs. The Company transfers 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 nine months ended December 31, 2011 and 2010, there were no transfers in or out of Level 3.

The following table presents the financial assets carried at fair value as of December 31, 2011, by caption on the accompanying *Condensed Consolidated Statements of Assets and Liabilities* for each of the three levels of hierarchy established by ASC 820:

| | As of December 31, 2011 | | |
|---|---|---|---|
| | **Level 1** | **Level 3** | **Total Fair Value Reported in Condensed Consolidated Statement of Assets and Liabilities** |
| **Control Investments** | | | |
| Senior term debt | $ | $ 48,131 | $ 48,131 |
| Senior subordinated term debt | | 60,115 | 60,115 |
| Preferred equity | | 37,076 | 37,076 |
| Common equity/equivalents | | 11,023 | 11,023 |
| **Total Control investments** | | **156,345** | **156,345** |
| **Affiliate Investments** | | | |
| Senior term debt | | 40,234 | 40,234 |
| Senior subordinated term debt | | 10,447 | 10,447 |
| Preferred equity | | 10,368 | 10,368 |
| Common equity/equivalents | | 134 | 134 |
| **Total Affiliate investments** | | **61,183** | **61,183** |
| **Non-Control/Non-Affiliate Investments** | | | |
| Senior term debt | | 9,176 | 9,176 |
| Common equity/equivalents | | 67 | 67 |
| **Total Non-Control/Non-Affiliate Investments** | | **9,243** | **9,243** |
| **Total Investments** | **$** | **$ 226,771** | **$ 226,771** |
| Cash Equivalents | 85,001 | | 85,001 |
| **Total Investments and Cash Equivalents at fair value** | **$ 85,001** | **$ 226,771** | **$ 311,772** |

The following table presents the financial assets carried at fair value as of March 31, 2011, by caption on the accompanying *Condensed Consolidated Statements of Assets and Liabilities* for each of the three levels of hierarchy established by ASC 820 that was used to value the Company s assets:

| | As of March 31, 2011 | | |
|---|---|---|---|
| | **Level 1** | **Level 3** | **Total Fair Value Reported in Condensed Consolidated Statement of Assets and Liabilities** |
| **Control Investments** | | | |
| Senior term debt | $ | $ 21,605 | $ 21,605 |
| Senior subordinated term debt | | 56,297 | 56,297 |
| Preferred equity | | 19,745 | 19,745 |

| | | | |
|---|---|---|---|
| Common equity/equivalents | | 6,415 | 6,415 |
| **Total Control investments** | | **104,062** | **104,062** |
| **Affiliate Investments** | | | |
| Senior term debt | | 22,903 | 22,903 |
| Senior subordinated term debt | | 6,000 | 6,000 |
| Preferred equity | | 5,653 | 5,653 |
| **Total Affiliate investments** | | **34,556** | **34,556** |
| **Non-Control/Non-Affiliate Investments** | | | |
| Senior term debt | | 14,119 | 14,119 |
| Senior subordinated term debt | | 509 | 509 |
| Common equity/equivalents | | 39 | 39 |
| **Total Non-Control/Non-Affiliate Investments** | | **14,667** | **14,667** |
| **Total Investments** | **$** | **$ 153,285** | **$ 153,285** |
| Cash Equivalents | 60,000 | | 60,000 |
| **Total Investments and Cash Equivalents at fair value** | **$ 60,000** | **$ 153,285** | **$ 213,285** |

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*Changes in Level 3 Fair Value Measurements of Investments*

The following tables provide a roll-forward in the changes in fair value, broken out by major security type, during the three and nine months ended December 31, 2011 and 2010 for all investments for which the Company determines fair value using unobservable (Level 3) factors. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the 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, the Company categorizes all of the inputs as the lowest level input within the hierarchy. 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 using significant unobservable inputs (Level 3)**

**Periods ended December 31, 2011:**

| | Senior Term Debt | Senior Subordinated Term 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 |
| Net realized losses[(A)] | | | | (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 |
| Issuances / Originations[(C)] | 17,350 | | 1,599 | | 18,949 |
| Sales[(D)] | | | | (505) | (505) |
| Settlements / Repayments[(E)] | (3,393) | (8,000) | | | (11,393) |
| 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 |
| Net realized (losses) gains[(A)] | (1) | 5 | | 5,087 | 5,091 |
| Net unrealized (depreciation) appreciation[(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) |
| Issuances / Originations[(C)] | 47,561 | 22,385 | 16,131 | 250 | 86,327 |
| Sales[(D)] | | | (2,266) | (5,766) | (8,032) |
| Settlements / Repayments[(E)] | (8,038) | (8,915) | | | (16,953) |
| Transfers[(F)] | | (4,000) | 4,000 | | |
| **Fair value as of December 31, 2011** | **$ 97,541** | **$ 70,562** | **$ 47,445** | **$ 11,223** | **$ 226,771** |

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**Periods ended December 31, 2010:**

| | Senior Term Debt | Senior Subordinated Term Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Three months ended December 31, 2010:** | | | | | |
| Fair value as of September 30, 2010 | $ 64,826 | $ 50,481 | $ 19,356 | $ 6,951 | $ 141,614 |
| Net realized gains[(A)] | | | | 6,514 | 6,514 |
| Net unrealized appreciation (depreciation)[(B)] | 53 | (2,456) | 8,440 | (567) | 5,470 |
| Reversal of previously-recorded appreciation upon realization[(B)] | | | (3,780) | (664) | (4,444) |
| Issuances / Originations[(C)] | 8,431 | 20,191 | 7,909 | 91 | 36,622 |
| Sales[(D)] | | | (6,961) | (6,575) | (13,536) |
| Settlements / Repayments[(E)] | (14,962) | (6,168) | | | (21,130) |
| **Fair value as of December 31, 2010** | **$ 58,348** | **$ 62,048** | **$ 24,964** | **$ 5,750** | **$ 151,110** |
| **Nine months ended December 31, 2010:** | | | | | |
| Fair value as of March 31, 2010 | $ 94,359 | $ 71,112 | $ 20,425 | $ 20,962 | $ 206,858 |
| Net realized gains[(A)] | 18 | | | 23,471 | 23,489 |
| Net unrealized appreciation (depreciation)[(B)] | 1,484 | (2,154) | (3,728) | 2,203 | (2,195) |
| Reversal of previously-recorded appreciation upon realization[(B)] | (19) | | (3,923) | (17,926) | (21,868) |
| Issuances / Originations[(C)] | 8,431 | 21,245 | 11,238 | 702 | 41,616 |
| Sales[(D)] | | | (11,348) | (23,662) | (35,010) |
| Settlements / Repayments[(E)] | (45,925) | (15,855) | | | (61,780) |
| Transfers[(G)] | | (12,300) | 12,300 | | |
| **Fair value as of December 31, 2010** | **$ 58,348** | **$ 62,048** | **$ 24,964** | **$ 5,750** | **$ 151,110** |

(A) Included in Net realized (loss) gain on investments on the accompanying *Condensed Consolidated Statement of Operations* for the periods ended December 31, 2011 and 2010.

(B) Included in Net unrealized appreciation (depreciation) on investments on the accompanying *Condensed Consolidated Statement of Operations* for the periods ended December 31, 2011 and 2010.

(C) Includes PIK and other non-cash disbursements to portfolio companies.

(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) Includes amortization of premiums and discounts and other cost-basis adjustments.

(F) Transfer represents $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.

(G) Transfer represents $12.3 million of senior subordinated term debt of Galaxy Tool Holding Corp., at cost as of June 30, 2010, that was converted to preferred and common equity during the quarter ended December 31, 2010.

*Non-Proprietary Investment Activity*

Non-proprietary investments are investments that were not originated by the Company. During the nine months ended December 31, 2011, the Company received full repayment of its non-proprietary loans to Fifth Third Processing Solutions, LLC, Survey Sampling, LLC, and American Greetings Corporation ( AMG ), resulting in aggregate gross proceeds of approximately $5.8 million and a minimal realized gain. As of December 31, 2011, the Company no longer holds any non-proprietary loans in its investment portfolio.

*Proprietary Investment Activity*

During the nine months ended December 31, 2011, the following significant transactions occurred:

In April 2011, the Company recapitalized its investment in Cavert, from which the Company received gross cash proceeds of $5.6 million from the sale of its common equity, resulting in a realized gain of $5.5 million, $2.3 million in a partial redemption of its preferred stock and $0.7 million in preferred dividends. At the same time, the Company invested $5.7 million in new subordinated debt in Cavert. Cavert was reclassified from a Control investment to an Affiliate investment during the three months ended June 30, 2011.

In April 2011, the Company invested $16.4 million in a new Control investment, Mitchell Rubber Products, Inc. ( Mitchell ), consisting of subordinated debt and preferred and common equity. Mitchell, headquartered in Mira Loma, California, develops, mixes and molds rubber compounds for specialized applications in the non-tire rubber market.

In August 2011, the Company invested $28.1 million in a new Control investment, SOG Specialty Knives and Tools, LLC ( SOG ), consisting of senior debt and preferred equity. SOG, headquartered in Lynnwood, Washington, designs and produces specialty knives and tools for the hunting/outdoors, military/law enforcement and industrial markets.

In September 2011, the Company invested $13.8 million in a new Control investment, SBS Industries, Inc. ( SBS ), consisting of senior debt and preferred and common equity. SBS, headquartered in Tulsa, Oklahoma, is a manufacturer and value-added distributor of special fasteners and threaded screw products.

In October 2011, the Company received full repayment of its senior subordinated term loan to Quench Holdings Corp. ( Quench ), resulting in gross proceeds of $8.0 million. The Company still holds preferred and common equity in Quench.

In November 2011, the Company sold Neville Limited ( Neville ) for gross proceeds of approximately $0.3 million, recognizing a realized loss of $0.3 million on the sale. Neville was property the Company received in connection with the A. Stucki sale in June 2010.

In December 2011, the Company restructured its investment in CCE, converting $4.0 million of senior subordinated debt into preferred shares of CCE in a non-cash transaction. The Company also received additional preferred shares as consideration for past-due interest and other receivables owed from CCE.

In December 2011, the Company invested $19.6 million in a new Affiliate investment, Channel Technologies Group, LLC ( Channel Technologies ), consisting of senior debt and preferred and common equity. Channel Technologies, headquartered in Santa Barbara, California, designs and manufactures products used in military, commercial and medical applications.

*Investment Concentrations*

Approximately 43.0% of the aggregate fair value of the Company s investment portfolio at December 31, 2011, was comprised of senior term debt, 31.1% was comprised of subordinated term debt and 25.9% was comprised of preferred and common equity securities or their equivalents. At December 31, 2011, the Company had investments in 17 portfolio companies with an aggregate fair value of $226.8 million, of which SOG, Acme Cryogenics, Inc. ( Acme ) and Venyu Solutions, Inc. ( Venyu ), collectively, comprised approximately $79.9 million, or 35.2% of the Company s total investment portfolio, at fair value. The following table outlines the Company s investments by security type at December 31 and March 31, 2011:

| | December 31, 2011 | | March 31, 2011 | |
|---|---|---|---|---|
| | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| Senior term debt | **$ 104,088** | **$ 97,541** | $ 64,566 | $ 58,627 |
| Senior subordinated term debt | **84,077** | **70,562** | 74,602 | 62,806 |
| Preferred equity | **70,784** | **47,444** | 52,922 | 25,398 |
| Common equity/Equivalents | **4,675** | **11,224** | 5,102 | 6,454 |
| Total Investments | **$ 263,624** | **$ 226,771** | $ 197,192 | $ 153,285 |

Investments at fair value consisted of the following industry classifications at December 31 and March 31, 2011:

| | December 31, 2011 | | March 31, 2011 | |
|---|---|---|---|---|
| | **Fair Value** | **Percentage of Total Investments** | **Fair Value** | **Percentage of Total Investments** |
| Chemicals, Plastics and Rubber | **$ 44,362** | **19.5%** | $ 19,906 | 13.0% |
| Diversified/Conglomerate Manufacturing | **30,219** | **13.3** | 12,746 | 8.3 |
| Leisure, Amusement, Motion Pictures, Entertainment | **28,543** | **12.6** | | |
| Containers, Packaging and Glass | **26,042** | **11.5** | 29,029 | 19.0 |
| Machinery (Non-Agriculture, Non-Construction and Non-Electronic) | **25,802** | **11.4** | 10,431 | 6.8 |
| Electronics | **24,654** | **10.9** | 25,012 | 16.3 |
| Oil and Gas | **14,441** | **6.4** | 4,931 | 3.2 |
| Cargo Transport | **13,283** | **5.8** | 13,183 | 8.6 |
| Buildings and Real Estate | **9,243** | **4.1** | 10,120 | 6.6 |

| | | | | |
|---|---|---|---|---|
| Aerospace and Defense | **7,667** | **3.4** | 6,659 | 4.4 |
| Home and Office Furnishings, Housewares and Durable Consumer Products | **2,515** | **1.1** | 8,627 | 5.6 |
| Telecommunications | | | 1,499 | 1.0 |
| Printing and Publishing | | | 3,073 | 2.0 |
| Automobile | | | 7,560 | 4.9 |
| Diversified Conglomerate Service | | | 509 | 0.3 |
| Total Investments | **$ 226,771** | **100.0%** | $ 153,285 | 100.0% |

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The investments, at fair value, were included in the following geographic regions of the United States at December 31 and March 31, 2011:

| | December 31, 2011 | | March 31, 2011 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| South | **$ 131,166** | **57.8%** | $ 92,172 | 60.1% |
| West | **58,761** | **25.9** | 12,746 | 8.3 |
| Northeast | **29,177** | **12.9** | 38,126 | 24.9 |
| Midwest | **7,667** | **3.4** | 10,241 | 6.7 |
| Total Investments | **$ 226,771** | **100.0%** | $ 153,285 | 100.0% |

The geographic region reflects the location of the headquarters of the Company s portfolio companies. A portfolio company may have a number of other business locations in other geographic regions.

*Investment Principal Repayments*

The following table summarizes the contractual principal repayments and maturity of the Company s investment portfolio by fiscal year, assuming no voluntary prepayments, at December 31, 2011:

| | | Amount |
|---|---|---|
| For the remaining three months ending March 31: | 2012 | $ 776 |
| For the fiscal year ending March 31: | 2013 | 31,602 |
| | 2014 | 29,772 |
| | 2015 | 32,886 |
| | 2016 | 26,775 |
| | Thereafter | 66,585 |
| | **Total contractual repayments** | **$ 188,396** |
| | Investments in equity securities | 75,459 |
| | Adjustments to cost basis on debt securities | (231) |
| | **Total cost basis of investments held at December 31, 2011:** | **$ 263,624** |

*Receivables from Portfolio Companies*

Receivables from portfolio companies represent non-recurring costs incurred on behalf of portfolio companies and are included in Other assets on the accompanying *Condensed Consolidated Statements of Assets and Liabilities*. The Company maintains an allowance for uncollectible receivables from portfolio companies, which is determined based on historical experience and management s expectations of future losses. The Company charges the accounts receivable to the established provision when collection efforts have been exhausted and the receivables are deemed uncollectible. As of December 31 and March 31, 2011, the Company had gross receivables from portfolio companies of $0.2 million and $0.5 million, respectively. The allowance for uncollectible receivables was $0 and $0.1 million at December 31 and March 31, 2011, respectively.

**NOTE 4. RELATED PARTY TRANSACTIONS**

*Investment Advisory and Management Agreement*

The Company has entered into an investment advisory and management agreement with the Adviser (the Advisory Agreement ), which is controlled by the Company s chairman and chief executive officer. In accordance with the Advisory Agreement, the Company pays the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee. On July 12, 2011, the Board of Directors approved the renewal of the Advisory Agreement through August 31, 2012.

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

| | Three Months Ended December 31, 2011 | Three Months Ended December 31, 2010 | Nine Months Ended December 31, 2011 | Nine Months Ended December 31, 2010 |
|---|---|---|---|---|
| Average total assets subject to base management fee(A) | **$ 228,000** | $ 195,400 | **$ 214,133** | $ 198,000 |
| Multiplied by prorated annual base management fee of 2% | **0.5%** | 0.5% | **1.5%** | 1.5% |
| Gross base management fee | **1,140** | 977 | **3,212** | 2,970 |
| Reduction for loan servicing fees(B) | **(811)** | (634) | **(2,204)** | (2,124) |
| Base management fee(B) | **$ 329** | $ 343 | **$ 1,008** | $ 846 |
| *Credits to base management fee from Adviser:* | | | | |
| Fee reduction for the waiver of 2.0% fee on senior syndicated loans to 0.5% | **$** | $ | **$** | $ (15) |
| Credit for fees received by Adviser from the portfolio companies | **(291)** | (450) | **(1,017)** | (615) |
| Credit to base management fee from Adviser | **(291)** | (450) | **(1,017)** | (630) |
| Net base management fee | **$ 38** | $ (107) | **$ (9)** | $ 216 |
| Gross incentive fee(B) | **$** | $ 1,898 | **$ 19** | $ 2,949 |
| Credit from waiver issued by Adviser s board of directors(C) | **(54)** | | **(54)** | |
| Net incentive fee | **$ (54)** | $ 1,898 | **$ (35)** | $ 2,949 |
| *Total credits to fees:* | | | | |
| Fee reduction for the waiver of 2.0% fee on senior syndicated loans to 0.5% | **$** | $ | **$** | $ (15) |
| Credit for fees received by Adviser from the portfolio companies | **(291)** | (450) | **(1,017)** | (615) |
| Incentive fee credit | **(54)** | | **(54)** | |
| Credit to fees from Adviser(B) | **$ (345)** | $ (450) | **$ (1,071)** | $ (630) |

(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, in total, as a line item on the *Condensed Consolidated Statement of Operations*.

(C) The credit to the incentive fee for the three months ended December 31, 2011, is due to a payment of the incentive fee during the three months ended June 30, 2010, in relation to the dividend income recognized based on a best-efforts valuation of Neville, the property received in connection with the A. Stucki sale in June 2010. This property was sold during November 2011, resulting in an exit at a lower amount than the dividend recognized during the three months ended June 30, 2010. The Adviser determined to retroactively apply the exit value to the incentive fee calculation for the three months ended June 30, 2010, resulting in an additional credit of $54, which was recorded during the three months ended December 31, 2011.

**Base Management Fee**

The base management fee is payable quarterly and assessed at an annual rate of 2.0%, computed on the basis of the value of the Company s 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 cash or cash equivalents resulting from borrowings. In addition, the following three items are adjustments to the base management fee calculation.

*Loan Servicing Fees*

The Adviser also services the loans held by Business Investment, in return for which it receives a 2.0% annual fee, based on the monthly aggregate outstanding balance of loans pledged under the Company s line of credit. Since the Company owns these loans, all loan servicing fees paid to the Adviser are treated as reductions directly against the 2.0% base management fee under the Advisory Agreement.

*Senior Syndicated Loan Fee Waiver*

The Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the annual 2.0% base management fee on senior syndicated loan participations to 0.5%, to the extent that proceeds resulting from borrowings were used to purchase such senior syndicated loan participations, for the nine months ended December 31, 2011 and 2010, to the extent applicable.

*Portfolio Company Fees*

Under the Advisory Agreement, the Adviser has also provided, and continues to provide, managerial assistance and other services to the Company s portfolio companies and may receive fees for services other than managerial assistance. 50% of certain of these fees and 100% of other fees are credited against the base management fee that the Company would otherwise be required to pay to the Adviser.

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**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 the Company s quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of the Company s net assets (the hurdle rate ). The Company will pay the Adviser an income-based incentive fee with respect to the Company s pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which the Company s pre-incentive fee net investment income does not exceed the hurdle rate (7.0% annualized);
- 100% of the Company s 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 the Company s pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

The Company s Board of Directors accepted an unconditional and irrevocable voluntary waiver from the Adviser to reduce the income-based incentive fee during the three months ended December 31, 2011, related to the Neville sale as described above.

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 the Company s realized capital gains as of the end of the fiscal year. In determining the capital gains-based incentive fee payable to the Adviser, the Company will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since the Company s inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in the Company s 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 the Company s 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 the Company s inception. Aggregate 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 the Company s calculation of the capital gains-based incentive fee equals the cumulative aggregate realized capital gains less cumulative aggregate realized capital losses, less aggregate unrealized capital depreciation, with respect to the Company s 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 the Company s portfolio in all prior years. No capital gains-based incentive fee has been recorded for the Company from its inception through December 31, 2011, as cumulative unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, the Company did not accrue a capital gains-based incentive fee. This GAAP 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 the Company 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 for the Company from its inception through December 31, 2011.

As a BDC, the Company makes available significant managerial assistance to its portfolio companies and provides other services to such portfolio companies. Although neither the Company nor its Adviser receive fees in connection with managerial assistance, the Adviser provides other services to the Company s portfolio companies and receives fees for these services.

*Administration Agreement*

The Company has entered into an administration agreement (the Administration Agreement ) with Gladstone Administration, LLC (the Administrator ), an affiliate of the Adviser, whereby it pays separately for administrative services. The Administration Agreement provides for payments equal to the Company s 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 the Company s chief financial officer, chief compliance officer, treasurer, internal counsel and their respective staffs. The Company s allocable portion of administrative expenses is generally derived by multiplying the Administrator s total allocable expenses by the

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percentage of the Company s total assets at the beginning of the quarter in comparison to the total assets at the beginning of the quarter of all companies managed by the Adviser under similar agreements. On July 12, 2011, the Board of Directors approved the renewal of the Administration Agreement through August 31, 2012.

*Related Party Fees Due*

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

| | As of December 31, 2011 | As of March 31, 2011 |
|---|---|---|
| Base management fee due to Adviser | **$ 38** | $ 341 |
| Loan servicing fee due to Adviser | **201** | 157 |
| Incentive fee credit due from Adviser | **(54)** | |
| Other | **2** | 1 |
| **Total fees due to Adviser** | **187** | 499 |
| **Fee due to Administrator** | **183** | 171 |
| **Total related party fees due** | **$ 370** | $ 670 |

**NOTE 5. BORROWINGS**

*Line of Credit*

On April 14, 2009, the Company, through its wholly-owned subsidiary, Business Investment, entered into a second amended and restated credit agreement providing for a $50.0 million revolving line of credit (the Credit Facility ) arranged by Branch Banking and Trust Company ( BB&T ) as administrative agent. Key Equipment Finance Inc. also joined the Credit Facility as a committed lender.

On April 13, 2010, the Company entered into a third amended and restated credit agreement which extended the maturity date of the Credit Facility to April 13, 2012. Advances under the Credit Facility generally bear interest at the 30-day London Interbank Offered Rate ( LIBOR ) (subject to a minimum rate of 2.0%), plus 4.5% per annum, with a commitment fee of 0.50% per annum on undrawn amounts when advances outstanding are above 50.0% of the commitment and 1.0% on undrawn amounts if the advances outstanding are below 50.0% of the commitment.

On October 26, 2011, the Company entered into a fourth amended and restated credit agreement to increase the commitment amount under the Credit Facility to $60 million. Subject to certain terms and conditions, the Credit Facility may be expanded up to a total of $175 million through the addition of other committed lenders to the facility. The Credit Facility matures on October 25, 2014 (the Maturity Date ), and, if not renewed or extended by the Maturity Date, all principal and interest will be due and payable on or before October 25, 2015 (one year after the Maturity Date). Advances under the Credit Facility will generally bear interest at 30-day LIBOR, plus 3.75% per annum, with an unused fee of 0.50% on undrawn amounts. There are two one-year extension options, to be agreed upon by all parties, which may be exercised on or before October 26, 2012 and October 26, 2013, as applicable.

The following tables summarize noteworthy information related to the Company s Credit Facility:

| | As of December 31, 2011 | As of March 31, 2011 |
|---|---|---|
| Commitment amount | **$ 60,000** | $ 50,000 |
| Borrowings outstanding at cost | **29,300** | |
| Availability | **28,449** | 33,866 |

| | For the Three Months Ended December 31, | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Weighted average borrowings outstanding | **$ 7,591** | $ 348 | **$ 4,852** | $ 3,821 |
| Effective interest rate[(A)] | **9.2%** | 154.0% | **14.4%** | 18.9% |
| Commitment (unused) fees incurred | **$ 77** | $ 127 | **$ 314** | $ 350 |

(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. BB&T is also the trustee of the account and once a month remits the collected funds to the Company.

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The 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 the Company s credit and collection policies without the lenders consent. The Credit Facility also limits payments on distributions to the aggregate net investment income for each of the twelve month periods ending March 31, 2011, 2012, 2013 and 2014. Business Investment is also subject to certain limitations on the type of loan investments it can apply toward availability credit in the borrowing base, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, average life and lien property. The 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, the Company is subject to a performance guaranty that requires the Company to maintain (i) a minimum net worth of $155.0 million plus 50.0% of all equity and subordinated debt raised after October 26, 2011, (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 December 31, 2011, the Company was in compliance with all covenants.

*Short-Term Loan*

Consistent with prior quarter ends to maintain the Company s status as a RIC, the Company purchased $85.0 million of short-term United States Treasury Bills ( T-Bills ) through Jefferies & Company, Inc. ( Jefferies ) on December 28, 2011. As these T-Bills have a maturity of less than three months, the Company considers them to be cash equivalents and includes them in Cash and cash equivalents on the accompanying *Condensed Consolidated Statement of Assets and Liabilities* as of December 31, 2011. The T-Bills were purchased using $9.0 million in funds drawn on the Credit Facility and the proceeds from a $76.0 million short-term loan from Jefferies, with an effective annual interest rate of approximately 0.65%. On January 5, 2012, when the T-Bills matured, the Company repaid the $76.0 million loan from Jefferies, and on January 6, 2012, the Company repaid the $9.0 million drawn on the Credit Facility for the transaction.

*Fair Value*

The Company elected to apply ASC 825, Financial Instruments, specifically for the Credit Facility and short-term loan, which was consistent with its application of ASC 820 to its investments. Generally, the Company estimates the fair value of its Credit Facility using estimates of value provided by an independent third party 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. However, as the renewal of the Credit Facility occurred during the three months ended December 31, 2011, cost was determined to approximate fair value. Additionally, due to the eight-day duration of the short-term loan, cost was deemed to approximate fair value. At both December 31 and March 31, 2011, all of the Company s borrowings were valued using Level 3 inputs. The following tables present the Credit Facility and short-term loan carried at fair value as of December 31 and March 31, 2011, by caption on the accompanying *Condensed Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and a roll-forward in the changes in fair value during the three and nine months ended December 31, 2011 and 2010:

| | Level 3 Borrowings Total Fair Value Reported in Condensed Consolidated Statements of Assets and Liabilities | |
|---|---|---|
| | **December 31, 2011** | **March 31, 2011** |
| Short-Term Loan | **$ 76,001** | $ 40,000 |
| Credit Facility | **29,300** | |
| **Total** | **$ 105,301** | $ 40,000 |

| | **Short-Term Loan** | **Credit Facility** | **Total Fair Value Reported in Condensed Consolidated Statements of Assets and Liabilities** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **Three months ended December 31, 2011:** | | | |
| Fair value at September 30, 2011 | $ 62,501 | $ 21,405 | $ 83,906 |
| Borrowings | 76,001 | 31,200 | 107,201 |
| Repayments | (62,501) | (22,900) | (85,401) |
| Net unrealized depreciation[(A)] | | (405) | (405) |
| **Fair value at December 31, 2011** | **$ 76,001** | **$ 29,300** | **$ 105,301** |
| **Nine months ended December 31, 2011:** | | | |
| Fair value at March 31, 2011 | $ 40,000 | $ | $ 40,000 |
| Borrowings | 178,502 | 52,700 | 231,202 |
| Repayments | (142,501) | (23,400) | (165,901) |
| **Fair value at December 31, 2011** | **$ 76,001** | **$ 29,300** | **$ 105,301** |

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| | Short-Term Loan | Credit Facility | Total Fair Value Reported in Condensed Consolidated Statements of Assets and Liabilities |
|---|---|---|---|
| **Three months ended December 31, 2010:** | | | |
| Fair value at September 30, 2010 | $ 25,000 | $ | $ 25,000 |
| Borrowings | 67,400 | 8,000 | 75,400 |
| Repayments | (25,000) | | (25,000) |
| **Fair value at December 31, 2010** | **$ 67,400** | **$ 8,000** | **$ 75,400** |
| **Nine months ended December 31, 2010:** | | | |
| Fair value at March 31, 2010 | $ 75,000 | $ 27,812 | $ 102,812 |
| Borrowings | 167,400 | 24,000 | 191,400 |
| Repayments | (175,000) | (43,800) | (218,800) |
| Net unrealized depreciation[(A)] | | (12) | (12) |
| **Fair value at December 31, 2010** | **$ 67,400** | **$ 8,000** | **$ 75,400** |

(A) Included in Net unrealized appreciation (depreciation) of other on the accompanying *Condensed Consolidated Statements of Operations* for the periods ended December 31, 2011 and 2010.

The fair value of the collateral under the Credit Facility was approximately $223.3 million and $146.3 million at December 31 and March 31, 2011, respectively. The fair value of the collateral under the short-term loan was approximately $85.0 million and $44.0 million at December 31 and March 31, 2011, respectively.

**NOTE 6. INTEREST RATE CAP AGREEMENTS**

The Company has entered into multiple interest rate cap agreements with BB&T that effectively limit the interest rate on a portion of the borrowings under the line of credit pursuant to the terms of the Credit Facility. The agreements provide that the Company s interest rate on a portion of its borrowings is capped at a certain interest rate when LIBOR is in excess of that certain interest rate. The Company records changes in the fair value of the interest rate cap agreement quarterly based on the current market valuation at quarter end as unrealized depreciation or appreciation of other on the accompanying *Condensed Consolidated Statements of Operations*. Generally, the Company will estimate the fair value of its interest rate caps using estimates of value provided by the counterparty 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. The following table summarizes the key terms of each interest rate cap agreement:

| Interest Rate Cap[(a)] | Notional Amount | LIBOR Cap | Effective Date | Maturity Date | As of December 31, 2011 Cost | As of December 31, 2011 Fair Value | As of March 31, 2011 Cost | As of March 31, 2011 Fair Value |
|---|---|---|---|---|---|---|---|---|
| May 2009 | $ 45,000 | 6.5% | May 2009 | May 2011 | $ [(b)] | $ | $ 40 | $ |
| April 2010 | 45,000 | 6.0 | May 2011 | May 2012 | 41 | | 41 | 4 |
| December 2011 | 50,000 | 6.0 | May 2012 | October 2013 | 29 | 14 | | |

(a) Indicates date the Company entered into the interest rate cap agreement with BB&T.

(b) In May 2011, upon expiration of the 2009 Cap, the Company recognized a realized loss of $40.

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

**NOTE 7. COMMON STOCK**

*Registration Statement*

On July 21, 2009, the Company filed a registration statement on Form N-2 (Registration No. 333-160720) that was amended on October 2, 2009 and declared effective by the SEC on October 8, 2009. The Company filed post-effective amendments to such registration statement on August 24, 2010, and November 22, 2010, which the SEC declared effective on December 23, 2010. The Company also filed post-effective amendments to the registration statement on June 17, 2011, and August 17, 2011, which the SEC declared effective on September 9, 2011. This registration statement permits the Company to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common stock, including through a combined offering of such securities.

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**NOTE 8. NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE**

The following table sets forth the computation of basic and diluted net increase in net assets resulting from operations per share for the three and nine months ended December 31, 2011 and 2010:

| | Three Months Ended December 31, 2011 | Three Months Ended December 31, 2010 | Nine Months Ended December 31, 2011 | Nine Months Ended December 31, 2010 |
|---|---|---|---|---|
| Numerator for basic and diluted net increase in net assets resulting from operations per share | **$ 5,495** | $ 15,135 | **$ 22,377** | $ 13,643 |
| Denominator for basic and diluted weighted average shares | **22,080,133** | 22,080,133 | **22,080,133** | 22,080,133 |
| **Basic and diluted net increase in net assets resulting from operations per share** | **$ 0.25** | $ 0.69 | **$ 1.01** | $ 0.62 |

**NOTE 9. DISTRIBUTIONS**

The Board of Directors declared the following monthly distributions to stockholders for the nine months ended December 31, 2011 and 2010:

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Share |
|---|---|---|---|---|
| **2012** | April 12, 2011 | April 22, 2011 | April 29, 2011 | **$ 0.045** |
| | April 12, 2011 | May 20, 2011 | May 31, 2011 | **0.045** |
| | April 12, 2011 | June 20, 2011 | June 30, 2011 | **0.045** |
| | July 12, 2011 | July 22, 2011 | July 29, 2011 | **0.050** |
| | July 12, 2011 | August 19, 2011 | August 31, 2011 | **0.050** |
| | July 12, 2011 | September 22, 2011 | September 30, 2011 | **0.050** |
| | October 11, 2011 | October 21, 2011 | October 31, 2011 | **0.050** |
| | October 11, 2011 | November 17, 2011 | November 30, 2011 | **0.050** |
| | October 11, 2011 | December 21, 2011 | December 30, 2011 | **0.050** |
| | | **Nine months ended December 31, 2011:** | | **$ 0.435** |
| **2011** | April 7, 2010 | April 22, 2010 | April 30, 2010 | $ 0.040 |
| | April 7, 2010 | May 20, 2010 | May 28, 2010 | 0.040 |
| | April 7, 2010 | June 22, 2010 | June 30, 2010 | 0.040 |
| | July 7, 2010 | July 22, 2010 | July 30, 2010 | 0.040 |
| | July 7, 2010 | August 23, 2010 | August 31, 2010 | 0.040 |
| | July 7, 2010 | September 22, 2010 | September 30, 2010 | 0.040 |
| | October 5, 2010 | October 21, 2010 | October 29, 2010 | 0.040 |
| | October 5, 2010 | November 19, 2010 | November 30, 2010 | 0.040 |
| | October 5, 2010 | December 23, 2010 | December 31, 2010 | 0.040 |
| | | **Nine months ended December 31, 2010:** | | **$ 0.360** |

Aggregate distributions declared and paid for the nine months ended December 31, 2011 and 2010 were approximately $9.6 million and $7.9 million, respectively, which were declared based on estimates of net investment income for the respective fiscal years. The characterization of the distributions declared and paid for the fiscal year ended March 31, 2012 will be determined at year end and cannot be determined at this time. For the fiscal year ended March 31, 2011, taxable income available for distributions exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, the Company elected to treat a portion of the first distribution paid in fiscal year 2012 as having been paid in the prior year.

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

*Financial Commitments and Obligations*

At December 31, 2011, the Company was not party to any signed commitments for potential investments. However, the Company has lines of credit with certain of its portfolio companies that have not been fully drawn. Since these lines of credit have expiration dates and the Company expects many will never be fully drawn, the total line of credit commitment amounts do not necessarily represent the Company s future cash requirements. The Company estimated the fair value of such unused commitments as of December 31, 2011 and March 31, 2011 to be minimal, and thus the unused portions of these commitments are not recorded on the accompanying *Condensed Consolidated Statements of Assets and Liabilities*.

In addition to the lines of credit with certain portfolio companies, the Company has also extended certain guaranties on behalf of some of its portfolio companies. As of December 31, 2011, the Company has not been required to make any payments on the guaranties discussed below, and the Company considers the credit risk to be remote and the fair values of the guaranties to be minimal.

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In October 2008, the Company executed a guaranty of a vehicle finance facility agreement (the Finance Facility ) between Ford Motor Credit Company ( Ford ) and ASH. The Finance Facility provides ASH with a line of credit of up to $0.8 million for component Ford parts used by ASH to build truck bodies under a separate contract. Ford retains title and ownership of the parts. The guaranty of the Finance Facility will expire upon termination of the separate parts supply contract with Ford or upon replacement of the Company as guarantor.

In February 2010, the Company executed a guaranty of a wholesale financing facility agreement (the Floor Plan Facility ) between Agricredit Acceptance, LLC ( Agricredit ) and CCE. The Floor Plan Facility provides CCE with financing of up to $2.0 million to bridge the time and cash flow gap between the order and delivery of golf carts to customers. The guaranty was renewed in February 2011 and expires in February 2012, unless it is renewed again by the Company, CCE and Agricredit. In connection with this guaranty and its subsequent renewal, the Company recorded aggregate premiums of $0.2 million from CCE.

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

The following table summarizes the dollar balance of unused line of credit commitments and guaranties as of December 31 and March 31, 2011:

| | As of December 31, 2011 | As of March 31, 2011 |
|---|---|---|
| Unused line of credit commitments | **$ 3,643** | $ 2,386 |
| Guaranties | **4,748** | 4,664 |
| Total | **$ 8,391** | $ 7,050 |

The following table shows the Company s contractual principal on borrowings as of December 31, 2011:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Borrowings** | **Less than 1 Year** | **1-3 Years** | **4-5 Years** | **After 5 Years** | **Total** |
| Short-term loan[(A)] | $ 76,001 | $ | $ | $ | $ 76,001 |
| Credit Facility | | 29,300 | | | 29,300 |
| **Total borrowings** | **$ 76,001** | **$ 29,300** | **$** | **$** | **$ 105,301** |

(A) On January 6, 2012, the Company repaid the short-term loan in full.

*Escrow Holdbacks*

The Company from time to time will enter into arrangements as it relates to exits of certain investments whereby specific amounts of the proceeds are held in escrow in order to be used to satisfy potential obligations as stipulated in the sales agreements. The Company records escrow amounts in Restricted cash on the accompanying *Condensed Consolidated Statements of Assets and Liabilities*. The Company establishes a contingent liability against the escrow amounts if the Company determines that it is probable and estimable that a portion of the escrow amounts will not be ultimately received at the end of the escrow period. The aggregate contingent liability amounted recorded against the escrow amounts was $0.6 million and $0.9 million as of December 31 and March 31, 2011, respectively, and is located in Other liabilities on the accompanying *Condensed Consolidated Statements of Assets and Liabilities*.

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**NOTE 11. FINANCIAL HIGHLIGHTS**

| | Three Months Ended December 31, 2011 | Three Months Ended December 31, 2010 | Nine Months Ended December 31, 2011 | Nine Months Ended December 31, 2010 |
|---|---|---|---|---|
| Per Share Data[(A)] | | | | |
| Net asset value at beginning of period | **$ 9.48** | $ 8.43 | **$ 9.00** | $ 8.74 |
| *Income from investment operations[(B)]:* | | | | |
| Net investment income | **0.16** | 0.34 | **0.46** | 0.65 |
| Realized (loss) gain on investments and other | **(0.01)** | 0.30 | **0.23** | 1.06 |
| Net unrealized appreciation (depreciation) on investments and other | **0.10** | 0.05 | **0.32** | (1.09) |
| Total from investment operations | **0.25** | 0.69 | **1.01** | 0.62 |
| *Distributions from:* | | | | |
| Net investment income | **(0.15)** | (0.12) | **(0.43)** | (0.36) |
| Total distributions[(C)] | **(0.15)** | (0.12) | **(0.43)** | (0.36) |
| Net asset value at end of period | **$ 9.58** | $ 9.00 | **$ 9.58** | $ 9.00 |
| Per share market value at beginning of period | **$ 6.76** | $ 6.75 | **$ 7.79** | $ 6.01 |
| Per share market value at end of period | **7.27** | 7.65 | **7.27** | 7.65 |
| Total return[(D)] | **9.73%** | 15.14% | **-0.91%** | 34.48% |
| Shares outstanding at end of period | **22,080,133** | 22,080,133 | **22,080,133** | 22,080,133 |
| Statement of Assets and Liabilities Data: | | | | |
| Net assets at end of period | **$ 211,601** | $ 198,682 | **$ 211,601** | $ 198,682 |
| Average net assets[(E)] | **208,883** | 189,420 | **203,103** | 191,299 |
| Senior Securities Data: | | | | |
| Total borrowings | **$ 105,301** | $ 75,400 | **$ 105,301** | $ 75,400 |
| Asset coverage ratio[(F)] | **288%** | 343% | **288%** | 343% |
| Average coverage per unit[(G)] | **$ 2,879** | $ 3,429 | **$ 2,879** | $ 3,429 |
| Ratios/Supplemental Data: | | | | |
| Ratio of expenses to average net assets[(H)(I)] | **3.97%** | 7.59% | **4.13%** | 6.05% |
| Ratio of net expenses to average net assets[(H)(J)] | **3.31** | 6.64 | **3.42** | 5.61 |
| Ratio of net investment income to average net assets[(H)] | **6.59** | 16.03 | **6.73** | 9.92 |

(A) Based on actual shares outstanding at the end of the corresponding period.

(B) Based on weighted average basic per share data.

(C) Distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.

(D) Total return equals the change in the market value of the Company s common stock from the beginning of the period, taking into account dividends reinvested in accordance with the terms of the Company s dividend reinvestment plan.

(E) Calculated using the average of the balance of net assets at the end of each month of the reporting period.

(F) As a BDC, the Company is generally required to maintain an asset coverage ratio of at least 200% of total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to total borrowings and guaranty commitments. Asset coverage ratio is the ratio of the carrying value of the Company s total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness.

(G) Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

(H) Amounts are annualized.

(I) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser.

(J) Ratio of net expenses to average net assets is computed using total expenses net of credits to the management fee.

**NOTE 12. SUBSEQUENT EVENTS**

***Short-Term Loan***

On December 28, 2011, the Company purchased $85.0 million of T-Bills through Jefferies. The T-Bills were purchased using $9.0 million in funds drawn on the Credit Facility and the proceeds from a $76.0 million short-term loan from Jefferies, with an effective annual interest rate of approximately 0.65%. On January 5, 2012, when the T-Bills matured, the Company repaid the $76.0 million loan from Jefferies, and on January 6, 2012, the Company repaid the $9.0 million drawn on the Credit Facility for the transaction.

***Distributions***

On January 10, 2012, the Board of Directors declared the following monthly distributions to stockholders:

| Record Date | Payment Date | Distribution per Share | |
|---|---|---|---|
| January 23, 2012 | January 31, 2012 | $ | 0.05 |
| February 21, 2012 | February 29, 2012 | | 0.05 |
| March 22, 2012 | March 30, 2012 | | 0.05 |
| | **Total for the Quarter:** | **$** | **0.15** |

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**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (dollar amounts in thousands, except share and per share data and as otherwise indicated).**

**All statements contained herein, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, growth, plan, intend, would, if, seek, possible, potential, likely, estimate or the negative of such terms or comparable terminology. These forward-loo statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. We caution readers not to place undue reliance on any such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Form 10-Q.**

**The following analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the notes thereto contained elsewhere in this report and in our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.**

## OVERVIEW

### General

We were incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005. We were primarily established for the purpose of investing in subordinated loans, mezzanine debt, preferred stock and warrants to purchase common stock of small and medium-sized companies in connection with buyouts and other recapitalizations. We also invest in senior secured loans, common stock and, to a much lesser extent, senior and subordinated syndicated loans. Our investment objective is to generate both current income and capital gains through these debt and equity instruments. We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). In addition, for tax purposes, we have elected to be treated as a regulated investment company ( RIC ) under the Internal Revenue Code of 1986, as amended (the Code ).

### Business Environment

While economic conditions generally appear to be improving, we remain cautious about a long-term economic recovery. The recent recession in general, and the disruptions in the capital markets in particular, have impacted our liquidity options and increased the cost of capital. Many of our portfolio companies, as well as those that we evaluate for possible investment, are impacted by these economic conditions, and if these conditions continue to persist, it may affect their ability to repay our loans or engage in a liquidity