GLADSTONE INVESTMENT CORPORATION\DE
Form 10-Q
November 02, 2016
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2016**

**OR**

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

**For the transition period from __________ to __________**

**Commission file number: 811-23191**

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

**(703) 287-5800**

**(Registrant s telephone number, including area code)**

**Not Applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

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 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer x |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | 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 November 1, 2016, was 30,270,958.

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

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

**(UNAUDITED)**

| | **September 30, 2016** | March 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Investments at fair value | | |
| Non-Control/Non-Affiliate investments (Cost of **$199,644** and $191,757, respectively) | **$ 187,900** | $ 180,933 |
| Affiliate investments (Cost of **$301,719** and $304,856, respectively) | **279,615** | 296,723 |
| Control investments (Cost of **$21,012** and $21,512 respectively) | **18,457** | 10,000 |
| Total investments at fair value (Cost of **$522,375** and $518,125, respectively) | **485,972** | 487,656 |
| Cash and cash equivalents | **5,097** | 4,481 |
| Restricted cash and cash equivalents | **1,035** | 1,107 |
| Interest receivable | **1,972** | 2,790 |
| Due from custodian | **2,689** | 1,638 |
| Deferred financing costs, net | **696** | 1,147 |
| Other assets, net | **1,601** | 4,256 |
| **TOTAL ASSETS** | **$ 499,062** | $ 503,075 |
| **LIABILITIES** | | |
| Borrowings: | | |
| Line of credit at fair value (Cost of **$63,500** and $95,000, respectively) | **$ 63,500** | $ 95,000 |
| Secured borrowing | **5,096** | 5,096 |
| Total borrowings | **68,596** | 100,096 |
| Mandatorily redeemable preferred stock, $0.001 par value, $25 liquidation preference; **6,356,000** and 4,956,000 shares authorized; **5,566,000** and 4,866,000 shares issued and outstanding, respectively, net | **134,459** | 118,465 |
| Accounts payable and accrued expenses | **1,274** | 1,054 |
| Fees due to Adviser[(A)] | **622** | 1,912 |
| Fee due to Administrator[(A)] | **275** | 311 |
| Other liabilities | **1,734** | 2,215 |
| **TOTAL LIABILITIES** | **$ 206,960** | $ 224,053 |

| | | | |
|---|---|---|---|
| Commitments and contingencies[B] | | | |
| **NET ASSETS** | **$** | **292,102** | $ 279,022 |
| | | | |
| **ANALYSIS OF NET ASSETS** | | | |
| Common stock, $0.001 par value per share, **100,000,000** shares authorized, **30,270,958** shares issued and outstanding | **$** | **30** | $ 30 |
| Capital in excess of par value | | **310,793** | 311,608 |
| Cumulative net unrealized depreciation of investments | | **(36,403)** | (30,469) |
| Cumulative net unrealized depreciation of other | | | (75) |
| Net investment income in excess of distributions | | **7,684** | 6,426 |
| Accumulated net realized gain (loss) | | **9,998** | (8,498) |
| | | | |
| **TOTAL NET ASSETS** | **$** | **292,102** | $ 279,022 |
| | | | |
| **NET ASSET VALUE PER SHARE AT END OF PERIOD** | **$** | **9.65** | $ 9.22 |

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

(B) Refer to Note 10 *Commitments and Contingencies* for additional information.

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

**(UNAUDITED)**

| | **Three Months Ended September 30,** | | **Six Months Ended September 30,** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **INVESTMENT INCOME** | | | | |
| Interest income | | | | |
| Non-Control/Non-Affiliate investments | **$ 4,357** | $ 3,970 | **$ 8,862** | $ 7,772 |
| Affiliate investments | **7,168** | 7,329 | **14,082** | 14,253 |
| Control investments | **204** | 645 | **413** | 1,304 |
| Cash and cash equivalents | **1** | 1 | **1** | 1 |
| Total interest income | **11,730** | 11,945 | **23,358** | 23,330 |
| Other income | | | | |
| Non-Control/Non-Affiliate investments | **14** | 1,795 | **29** | 3,116 |
| Affiliate investments | | | **2,750** | |
| Total other income | **14** | 1,795 | **2,779** | 3,116 |
| Total investment income | **11,744** | 13,740 | **26,137** | 26,446 |
| **EXPENSES** | | | | |
| Base management fee[A] | **2,489** | 2,510 | **4,998** | 4,963 |
| Loan servicing fee[A] | **1,722** | 1,707 | **3,403** | 3,266 |
| Incentive fee[A] | **549** | 1,505 | **2,249** | 2,796 |
| Administration fee[A] | **275** | 270 | **574** | 625 |
| Interest expense on borrowings | **953** | 1,081 | **1,924** | 2,145 |
| Dividends on mandatorily redeemable preferred stock | **2,115** | 2,065 | **4,180** | 3,832 |
| Amortization of deferred financing costs and discounts | **481** | 483 | **962** | 943 |
| Professional fees | **194** | 261 | **386** | 703 |
| Other general and administrative expenses | **690** | 403 | **891** | 959 |
| Expenses before credits from Adviser | **9,468** | 10,285 | **19,567** | 20,232 |
| Credit to base management fee loan servicing fee[A] | **(1,722)** | (1,707) | **(3,403)** | (3,266) |
| Credit to fees from Adviser other[A] | **(1,114)** | (861) | **(1,951)** | (1,706) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total expenses net of credits to fees | | **6,632** | | 7,717 | | **14,213** | | 15,260 |
| **NET INVESTMENT INCOME** | | **5,112** | | 6,023 | | **11,924** | | 11,186 |
| **REALIZED AND UNREALIZED GAIN (LOSS)** | | | | | | | | |
| Net realized gain (loss): | | | | | | | | |
| Non-Control/Non-Affiliate investments | | **(12)** | | (1) | | **(165)** | | (1) |
| Affiliate investments | | **3** | | (2,740) | | **18,792** | | (2,740) |
| Control investments | | **(2)** | | 1 | | **(3)** | | 200 |
| Other | | **(182)** | | | | **(257)** | | |
| Total net realized (loss) gain | | **(193)** | | (2,740) | | **18,367** | | (2,541) |
| Net unrealized appreciation (depreciation): | | | | | | | | |
| Non-Control/Non-Affiliate investments | | **(8,136)** | | (9,990) | | **(919)** | | (3,482) |
| Affiliate investments | | **1,977** | | 11,852 | | **(13,972)** | | 8,651 |
| Control investments | | **1,138** | | (5,255) | | **8,957** | | (5,365) |
| Other | | | | | | **75** | | |
| Total net unrealized depreciation | | **(5,021)** | | (3,393) | | **(5,859)** | | (196) |
| Net realized and unrealized (loss) gain | | **(5,214)** | | (6,133) | | **12,508** | | (2,737) |
| **NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | **$** | **(102)** | $ | (110) | **$** | **24,432** | $ | 8,449 |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | | | | | | |
| Net investment income | **$** | **0.17** | $ | 0.20 | **$** | **0.39** | $ | 0.37 |
| Net increase in net assets resulting from operations | | | | | | **0.81** | | 0.28 |
| Distributions | | **0.19** | | 0.19 | | **0.38** | | 0.38 |
| **WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:** | | | | | | | | |
| Basic and diluted | | **30,270,958** | | 30,270,958 | | **30,270,958** | | 30,265,548 |

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

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | Six Months Ended September 30, 2016 | 2015 |
|---|---|---|
| **OPERATIONS** | | |
| Net investment income | **$ 11,924** | $ 11,186 |
| Net realized gain (loss) on investments | **18,624** | (2,541) |
| Net realized loss on other | **(257)** | |
| Net unrealized depreciation of investments | **(5,934)** | (196) |
| Net unrealized appreciation of other | **75** | |
| Net increase in net assets from operations | **24,432** | 8,449 |
| **DISTRIBUTIONS** | | |
| Distributions to common stockholders | **(11,352)** | (11,352) |
| Net decrease in net assets from distributions | **(11,352)** | (11,352) |
| **CAPITAL ACTIVITY** | | |
| Issuance of common stock | | 3,663 |
| Offering costs for issuance of common stock | | (221) |
| Net increase in net assets from capital activity | | 3,442 |
| **TOTAL INCREASE IN NET ASSETS** | **13,080** | 539 |
| **NET ASSETS, BEGINNING OF PERIOD** | **279,022** | 273,429 |
| **NET ASSETS, END OF PERIOD** | **$ 292,102** | $ 273,968 |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(IN THOUSANDS)**

**(UNAUDITED)**

| | Six Months Ended September 30, | |
|---|---|---|
| | **2016** | **2015** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net increase in net assets resulting from operations | **$ 24,432** | $ 8,449 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities: | | |
| Purchase of investments | **(31,186)** | (40,045) |
| Principal repayments of investments | **16,661** | 10,583 |
| Net proceeds from the sale of investments | **28,479** | 2,159 |
| Net realized (gain) loss on investments | **(18,662)** | 2,525 |
| Net realized loss on other | **257** | |
| Net unrealized depreciation of investments | **5,934** | 196 |
| Net unrealized appreciation of other | **(75)** | |
| Amortization of deferred financing costs and discounts | **962** | 943 |
| Bad debt expense, net of recoveries | **(186)** | 172 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in restricted cash and cash equivalents | **464** | (388) |
| Decrease (increase) in interest receivable | **818** | (876) |
| (Increase) decrease in due from custodian | **(1,051)** | 2,816 |
| Decrease (increase) in other assets, net | **2,885** | (272) |
| Decrease in accounts payable and accrued expenses | **(71)** | (347) |
| (Decrease) increase in fees due to Adviser[(A)] | **(1,290)** | 412 |
| (Decrease) increase in fee due to Administrator[(A)] | **(36)** | 8 |
| Decrease in other liabilities | **(481)** | (891) |
| Net cash provided by (used in) operating activities | **27,854** | (14,556) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuance of common stock | | 3,663 |
| Offering costs for issuance of common stock | | (221) |
| Proceeds from line of credit | **37,200** | 65,500 |
| Repayments on line of credit | **(68,700)** | (80,800) |
| Proceeds from issuance of mandatorily redeemable preferred stock | **57,500** | 40,250 |
| Redemption of mandatorily redeemable preferred stock | **(40,000)** | |
| Deferred financing and offering costs | **(1,886)** | (1,711) |
| Distributions paid to common stockholders | **(11,352)** | (11,352) |
| Net cash (used in) provided by financing activities | **(27,238)** | 15,329 |

| | | | | |
|---|---|---|---|---|
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **616** | | 773 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | | **4,481** | | 4,921 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | **$** | **5,097** | $ | 5,694 |
| **CASH PAID FOR INTEREST** | **$** | **1,730** | $ | 1,942 |
| **NON-CASH ACTIVITIES[(B)]** | **$** | | $ | 15,740 |

[(A)] Refer to Note 4 *Related Party Transactions* for additional information.
[(B)] 2015: Significant non-cash operating activities consisted principally of the following transaction:
In August 2015, NDLI, Inc. ( NDLI ) was acquired by Diligent Delivery Systems ( Diligent ). As part of this acquisition, we restructured our investment in NDLI, which resulted in the termination of our debt investments in NDLI, which had a cost basis and fair value of $17.7 million and $14.2 million, respectively. We received cash proceeds of $1.9 million and a $13.0 million secured second lien debt investment in Diligent, which resulted in a net realized loss of $2.7 million. We recognized this net realized loss in our *Consolidated Statements of Operations* during the three and six months ended September 30, 2015.

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**SEPTEMBER 30, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

| Company(A) | Industry | Investment(B)(F) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(N):** | | | | | |
| Auto Safety House, LLC | Automobile | Secured First Lien Line of Credit, $1,000 available (8.0%, Due 10/2019)(I)(Q) | $ | $ | $ |
| | | Secured First Lien Term Debt (8.0%, Due 10/2019)(I)(Q) | 5,000 | 5,000 | 5,414 |
| | | | | 5,000 | 5,414 |
| B-Dry, LLC | Personal, Food and Miscellaneous Services | Secured First Lien Line of Credit, $100 available (6.8% (0.8% Unused Fee), Due 12/2016)(L) | 3,900 | 3,900 | 3,900 |
| | | Secured First Lien Term Debt (1.5%, Due 12/2019)(L) | 6,433 | 6,443 | 1,502 |
| | | Secured First Lien Term Debt (1.5%, Due 12/2019)(L) | 840 | 840 | |
| | | Preferred Stock (2,500 shares)(C)(L) | | 2,516 | |
| | | Common Stock (2,500 shares)(C)(L) | | 300 | |
| | | | | 13,999 | 5,402 |
| Country Club Enterprises, LLC | Automobile | Secured Second Lien Term Debt (18.7%, Due 5/2017)(L) | 4,000 | 4,000 | 4,000 |
| | | Preferred Stock (7,245,681 | | 7,725 | 5,740 |

| | | | | | |
|---|---|---|---|---|---|
| | | shares)(C)(L) Guaranty ($2,000)(D) Guaranty ($71)(D) | | | |
| | | | | 11,725 | 9,740 |
| Diligent Delivery Systems | Cargo Transport | Secured Second Lien Term Debt (10.0%, Due 8/2020)(K) | 13,000 | 13,000 | 13,130 |
| | | Common Stock Warrants (8% ownership)(C)(L) | | 500 | 2,000 |
| | | | | 13,500 | 15,130 |
| Drew Foam Companies, Inc. | Chemicals, Plastics, and Rubber | Secured First Lien Term Debt (13.5%, Due 8/2017)(L) | 9,913 | 9,913 | 9,913 |
| | | Preferred Stock (34,045 shares)(C)(L) | | 3,375 | 3,727 |
| | | Common Stock (5,372 shares)(C)(L) | | 63 | 6,519 |
| | | | | 13,351 | 20,159 |
| Frontier Packaging, Inc. | Containers, Packaging, and Glass | Secured First Lien Term Debt (12.0%, Due 12/2017)(L) | 9,750 | 9,750 | 9,750 |
| | | Preferred Stock (1,373 shares)(C)(L) | | 1,373 | 1,442 |
| | | Common Stock (152 shares)(C)(L) | | 152 | 7,298 |
| | | | | 11,275 | 18,490 |
| Funko Acquisition Holdings, LLC(M) | Personal and Non-Durable Consumer Products (Manufacturing Only) | Preferred Stock (260 units)(C)(L) | | 260 | 358 |
| | | Common Stock (975 units)(C)(L) | | | |
| | | | | 260 | 358 |
| Ginsey Home Solutions, Inc. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Secured Second Lien Term Debt (13.5%, Due 1/2021)(H)(L) | 13,300 | 13,300 | 13,300 |
| | | Preferred Stock (19,280 shares)(C)(L) | | 9,583 | 5,883 |
| | | Common Stock (63,747 shares)(C)(L) | | 8 | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 22,891 | 19,183 |
| Jackrabbit, Inc. | Farming and Agriculture | Secured First Lien Term Debt (13.5%, Due 4/2018)(L) | 11,000 | 11,000 | 11,000 |
| | | Preferred Stock (3,556 shares)(C)(L) | | 3,556 | 4,650 |
| | | Common Stock (548 shares)(C)(L) | | 94 | 2,084 |
| | | | | 14,650 | 17,734 |
| Mathey Investments, Inc. | Machinery (Non-agriculture, Non-construction, Non-electronic) | Secured First Lien Term Debt (10.0%, Due 3/2018)(L) | 1,375 | 1,375 | 1,375 |
| | | Secured First Lien Term Debt (12.0%, Due 3/2018)(L) | 3,727 | 3,727 | 3,727 |
| | | Secured First Lien Term Debt (12.5%, Due 3/2018)(E)(I)(L) | 3,500 | 3,500 | 2,148 |
| | | Common Stock (29,102 shares)(C)(L) | | 777 | |
| | | | | 9,379 | 7,250 |
| Mitchell Rubber Products, Inc. | Chemicals, Plastics, and Rubber | Secured Second Lien Term Debt (13.0%, Due 3/2018)(I)(K) | 13,560 | 13,560 | 10,848 |
| | | Preferred Stock (27,900 shares)(C)(L) | | 2,790 | |
| | | Common Stock (27,900 shares)(C)(L) | | 28 | |
| | | | | 16,378 | 10,848 |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**SEPTEMBER 30, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

| Company[(A)] | Industry | Investment[(B)(F)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| Nth Degree, Inc. | Diversified/Conglomerate Service | Secured First Lien Term Debt (12.5%, Due 12/2020)[(L)] | $ 13,290 | $ 13,290 | $ 13,290 |
| | | Preferred Stock (5,660 units)[(C)(L)] | | 5,660 | 7,025 |
| | | | | 18,950 | 20,315 |
| Quench Holdings Corp. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Common Stock (4,770,391 shares)[(C)(L)] | | 3,397 | 4,359 |
| | | | | 3,397 | 4,359 |
| SBS Industries, LLC | Machinery (Non-agriculture, Non-construction, Non-electronic) | Secured First Lien Term Debt (14.0%, Due 8/2019)[(L)] | 11,355 | 11,355 | 9,013 |
| | | Preferred Stock (19,935 shares)[(C)(L)] | | 1,994 | |
| | | Common Stock (221,500 shares)[(C)(L)] | | 222 | |
| | | | | 13,571 | 9,013 |
| Schylling, Inc. | Leisure, Amusement, Motion Pictures, Entertainment | Secured First Lien Term Debt (13.0%, Due 8/2018)[(L)] | 13,081 | 13,081 | 13,081 |
| | | Preferred Stock (4,000 shares)[(C)(L)] | | 4,000 | 4,306 |
| | | | | 17,081 | 17,387 |
| Star Seed, Inc. | Farming and Agriculture | Secured First Lien Term Debt (12.5%, Due 5/2018)[(E)(K)] | 5,000 | 5,000 | 4,700 |
| | | Preferred Stock (1,499 shares)[(C)(L)] | | 1,499 | |

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| | | | | | |
|---|---|---|---|---|---|
| | | Common Stock (600 shares)(C)(L) | | | |
| | | | | 6,500 | 4,700 |
| Tread Corporation | Oil and Gas | Secured First Lien Line of Credit, $634 available (12.5%, Due 2/2018)(G)(L) | 3,216 | 3,216 | 2,418 |
| | | Preferred Stock (12,998,639 shares)(C)(L) | | 3,768 | |
| | | Common Stock (10,089,048 shares)(C)(L) | | 753 | |
| | | | | 7,737 | 2,418 |
| **Total Non-Control/Non-Affiliate Investments (represents 38.7% of total investments at fair value)** | | | | **$ 199,644** | **$ 187,900** |
| **AFFILIATE INVESTMENTS(O):** | | | | | |
| Alloy Die Casting Co.(M) | Diversified/Conglomerate Manufacturing | Secured First Lien Term Debt (13.5%, Due 10/2018)(K) | $ 12,215 | $ 12,215 | $ 11,604 |
| | | Secured First Lien Term Debt (13.5%, Due 10/2018)(K) | 175 | 175 | 166 |
| | | Secured First Lien Term Debt (Due 10/2018)(K)(R) | 910 | 910 | 869 |
| | | Preferred Stock (4,064 shares)(C)(L) | | 4,064 | |
| | | Common Stock (630 shares)(C)(L) | | 41 | |
| | | | | 17,405 | 12,639 |
| Behrens Manufacturing, LLC(M) | Diversified/Conglomerate Manufacturing | Secured First Lien Term Debt (13.0%, Due 12/2018)(Q) | 9,975 | 9,975 | 10,823 |
| | | Preferred Stock (2,923 shares)(C)(Q) | | 2,922 | 9,565 |
| | | | | 12,897 | 20,388 |
| Brunswick Bowling Products, Inc. | Home and Office Furnishings, Housewares and Durable Consumer Products | Secured First Lien Term Debt (16.3%, Due 5/2020)(L) | 11,307 | 11,307 | 11,307 |
| | | Preferred Stock (4,943 shares)(C)(L) | | 4,943 | 9,887 |
| | | | | 16,250 | 21,194 |

| | | | | | |
|---|---|---|---|---|---|
| B+T Group Acquisition Inc.(M) | Telecommunications | Secured First Lien Term Debt (13.0%, Due 12/2019)(L) | 14,000 | 14,000 | 14,000 |
| | | Preferred Stock (12,841 shares)(C)(L) | | 4,196 | |
| | | | | 18,196 | 14,000 |
| Cambridge Sound Management, Inc. | Home and Office Furnishings, Housewares and Durable Consumer Products | Secured Second Lien Term Debt (13.0%, Due 8/2021)(L) | 16,000 | 16,000 | 16,000 |
| | | Preferred Stock (4,500 shares)(C)(L) | | 4,500 | 10,061 |
| | | | | 20,500 | 26,061 |
| Channel Technologies Group, LLC | Diversified/Conglomerate Manufacturing | Preferred Stock (2,279 shares)(C)(L) | | 1,841 | |
| | | Common Stock (2,319,184 shares)(C)(L) | | | |
| | | | | 1,841 | |

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

**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**SEPTEMBER 30, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

| Company[(A)] | Industry | Investment[(B)(F)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| Counsel Press, Inc. | Diversified/Conglomerate Services | Secured First Lien Line of Credit, $1,000 available (12.8% (1.0% Unused Fee), Due 3/2017)[(L)] | $ | $ | $ |
| | | Secured First Lien Term Debt (12.8%, Due 3/2020)[(L)] | 18,000 | 18,000 | 18,000 |
| | | Secured First Lien Term Debt (14.0%, Due 3/2020)[(L)] | 5,500 | 5,500 | 5,500 |
| | | Preferred Stock (6,995 shares)[(C)(L)] | | 6,995 | 8,437 |
| | | | | 30,495 | 31,937 |
| D.P.M.S., Inc. | Diversified/Conglomerate Manufacturing | Secured First Lien Line of Credit, $550 available (4.0% (0.5% Unused Fee), Due 8/2017)[(I)(L)] | 4,000 | 4,000 | 4,000 |
| | | Secured First Lien Term Debt (4.0%, Due 8/2017)[(I)(L)] | 2,575 | 2,575 | 2,420 |
| | | Secured First Lien Term Debt (4.0%, Due 8/2017)[(I)(L)] | 8,795 | 8,795 | |
| | | Secured First Lien Term Debt (5.3%, Due 8/2017)[(E)(L)] | 1,150 | 1,150 | |
| | | Preferred Stock (25 shares)[(C)(L)] | | 2,500 | |
| | | Common Stock (1,241 shares)[(C)(L)] | | 3 | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 19,023 | 6,420 |
| Edge Adhesives Holdings, Inc. (M) | Diversified/Conglomerate Manufacturing | Secured First Lien Term Debt (12.5%, Due 2/2019)(K) | 9,300 | 9,300 | 9,114 |
| | | Secured First Lien Term Debt (13.8%, Due 2/2019)(K) | 2,400 | 2,400 | 2,364 |
| | | Preferred Stock (3,774 units)(C)(L) | | 3,774 | |
| | | | | 15,474 | 11,478 |
| GI Plastek, Inc. | Chemicals, Plastics, and Rubber | Secured First Lien Term Debt (13.3%, Due 7/2020)(L) | 15,000 | 15,000 | 15,000 |
| | | Preferred Stock (5,150 units)(C)(L) | | 5,150 | 6,291 |
| | | | | 20,150 | 21,291 |
| Head Country, Inc. | Beverage, Food and Tobacco | Secured First Lien Term Debt (12.5%, Due 2/2019)(L) | 9,050 | 9,050 | 9,050 |
| | | Preferred Stock (4,000 shares)(C)(L) | | 4,000 | 4,240 |
| | | | | 13,050 | 13,290 |
| Logo Sportswear, Inc. | Textiles and Leather | Secured First Lien Term Debt (12.5%, Due 3/2020)(L) | 9,200 | 9,200 | 9,200 |
| | | Preferred Stock (1,550 shares)(C)(L) | | 1,550 | 5,709 |
| | | | | 10,750 | 14,909 |
| Meridian Rack & Pinion, Inc.(M) | Automobile | Secured First Lien Term Debt (13.5%, Due 12/2018)(K) | 9,660 | 9,660 | 8,791 |
| | | Preferred Stock (3,381 shares)(C)(L) | | 3,381 | 595 |
| | | | | 13,041 | 9,386 |
| The Mountain Corporation | Personal and Non-Durable Consumer Products (Manufacturing Only) | Secured Second Lien Term Debt (13.5%, Due 8/2021)(L) | 18,600 | 18,600 | 18,600 |
| | | Preferred Stock (6,899 shares)(C)(L) | | 6,899 | 5,028 |
| | | Common Stock (751 shares)(C)(L) | | 1 | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 25,500 | 23,628 |
| NDLI, Inc. | Cargo Transport | Preferred Stock (3,600 shares)(C)(L) | | 3,600 | |
| | | Common Stock (545 shares)(C)(L) | | | |
| | | | | 3,600 | |
| Old World Christmas, Inc. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Secured First Lien Term Debt (13.3%, Due 10/2019)(L) | 15,770 | 15,770 | 15,770 |
| | | Preferred Stock (6,180 shares)(C)(L) | | 6,180 | 6,373 |
| | | | | 21,950 | 22,143 |
| Precision Southeast, Inc. | Diversified/Conglomerate Manufacturing | Secured Second Lien Term Debt (14.0%, Due 9/2020)(L) | 9,618 | 9,618 | 9,618 |
| | | Preferred Stock (37,391 shares)(C)(L) | | 3,739 | |
| | | Common Stock (90,909 shares)(C)(L) | | 91 | |
| | | | | 13,448 | 9,618 |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**SEPTEMBER 30, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

**(UNAUDITED)**

| Company[(A)] | Industry | Investment[(B)(F)] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| SOG Specialty Knives & Tools, LLC | Leisure, Amusement, Motion Pictures, Entertainment | Secured First Lien Term Debt (13.3%, Due 10/2017)[(L)] | $6,200 | $6,200 | $6,200 |
| | | Secured First Lien Term Debt (14.8%, Due 10/2017)[(L)] | 12,200 | 12,200 | 12,200 |
| | | Preferred Stock (9,749 shares)[(C)(L)] | | 9,749 | 2,833 |
| | | | | 28,149 | 21,233 |
| **Total Affiliate Investments (represents 57.5% of total investments at fair value)** | | | | **$301,719** | **$279,615** |
| **CONTROL INVESTMENTS[(P)]:** | | | | | |
| Galaxy Tool Holding Corporation | Aerospace and Defense | Secured First Lien Line of Credit, $500 available (6.5% (1.0% Unused Fee), Due 8/2017)[(L)] | $4,500 | $4,500 | $4,500 |
| | | Secured Second Lien Term Debt (10.0%, Due 8/2017)[(L)] | 5,000 | 5,000 | 5,000 |
| | | Preferred Stock (5,517,444 shares)[(C)(L)] | | 11,464<br>48 | 8,957 |
| | | Common Stock (88,843 shares)[(C)(L)] | | | |
| | | | | 21,012 | 18,457 |
| **Total Control Investments (represents 3.8% of total investments at fair value)** | | | | **$21,012** | **$18,457** |
| | | | | **$522,375** | **$485,972** |

**TOTAL INVESTMENTS**

(A) Certain of the securities listed are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $451.6 million at fair value, are pledged as collateral to our revolving line of credit as described further in Note 5 *Borrowings*. Additionally, all of our investments are considered qualifying assets under Section 55 of the Investment Company Act of 1940, as amended, (the 1940 Act ) as of September 30, 2016. Under the 1940 Act, we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(B) Percentages represent the weighted average cash interest rates in effect at September 30, 2016, and due date represents the contractual maturity date. Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate. If applicable, paid-in-kind interest rates are noted separately from the cash interest rates.

(C) Security is non-income producing.

(D) Refer to Note 10 *Commitments and Contingencies* for additional information regarding these guaranties.

(E) Last Out Tranche ( LOT ) of secured first lien debt, meaning if the portfolio company is liquidated, the holder of the LOT generally is paid after the other secured first lien debt but before the secured second lien debt.

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

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

(H) $5.1 million of the debt security was participated to a third party, but is accounted for as collateral for a secured borrowing under accounting principles generally accepted in the U.S. and presented as secured borrowing on our accompanying *Consolidated Statements of Assets and Liabilities* as of September 30, 2016.

(I) Debt security has a fixed interest rate.

(J) Reserved.

(K) Fair value was based on internal yield analysis or on estimates of value submitted by Standard & Poor s Securities Evaluations, Inc. Refer to Note 3 *Investments* for additional information.

(L) Fair value was based on the total enterprise value of the portfolio company, which is generally allocated to the portfolio company s securities in order of their relative priority in the capital structure. Refer to Note 3 *Investments* for additional information.

(M) One of our affiliated funds, Gladstone Capital Corporation, co-invested with us in this portfolio company pursuant to an exemptive order granted by the U.S. Securities and Exchange Commission.

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

(O) Affiliate investments, as defined by the 1940 Act, are those that are not Control investments and in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.

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

(Q) Fair value was based on the expected exit or payoff amount, where such event has occurred or is expected to occur imminently.

(R) Debt security does not have a stated current interest rate.

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS**

**MARCH 31, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company[A] | Industry | Investment[B][F] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS[N]:** | | | | | |
| Auto Safety House, LLC | Automobile | Secured First Lien Line of Credit, $1,000 available (8.0% , Due 10/2019)[I][Q] | $ | $ | $ |
| | | Secured First Lien Term Debt (8.0%, Due 10/2019)[I][Q] | 5,000 | 5,000 | 5,311 |
| | | | | 5,000 | 5,311 |
| B-Dry, LLC | Personal, Food and Miscellaneous Services | Secured First Lien Line of Credit, $500 available (6.7% (0.8% Unused Fee), Due 12/2016)[L] | 3,500 | 3,500 | 3,500 |
| | | Secured First Lien Term Debt (12.0%, Due 12/2019)[L] | 6,433 | 6,443 | 1,191 |
| | | Secured First Lien Term Debt (12.0%, Due 12/2019)[L] | 840 | 840 | |
| | | Preferred Stock (2,500 shares)[C][L] | | 2,516 | |
| | | Common Stock (2,500 shares)[C][L] | | 300 | |
| | | | | 13,599 | 4,691 |
| Country Club Enterprises, LLC | Automobile | Secured Second Lien Term Debt (18.7%, Due 5/2017)[L] | 4,000 | 4,000 | 4,000 |
| | | Preferred Stock (7,245,681 shares)[C][L] | | 7,725 | 5,313 |
| | | Guaranty ($2,000)[D] | | | |
| | | Guaranty ($279)[D] | | | |
| | | | | 11,725 | 9,313 |

| | | | | | |
|---|---|---|---|---|---|
| Diligent Delivery Systems | Cargo Transport | Secured Second Lien Term Debt (10.0%, Due 8/2020)(K) | 13,000 | 13,000 | 12,984 |
| | | Common Stock Warrants (6.0% ownership)(C)(L) | | | 1,500 |
| | | | | 13,000 | 14,484 |
| Drew Foam Companies, Inc. | Chemicals, Plastics, and Rubber | Secured First Lien Term Debt (13.5%, Due 8/2017)(L) | 9,913 | 9,913 | 9,913 |
| | | Preferred Stock (34,045 shares)(C)(L) | | 3,375 | 3,583 |
| | | Common Stock (5,372 shares)(C)(L) | | 63 | 6,459 |
| | | | | 13,351 | 19,955 |
| Frontier Packaging, Inc. | Containers, Packaging, and Glass | Secured First Lien Term Debt (12.0%, Due 12/2017)(L) | 10,500 | 10,500 | 10,500 |
| | | Preferred Stock (1,373 shares)(C)(L) | | 1,373 | 1,386 |
| | | Common Stock (152 shares)(C)(L) | | 152 | 8,222 |
| | | | | 12,025 | 20,108 |
| Funko Acquisition Holdings, LLC(M) | Personal and Non-Durable Consumer Products (Manufacturing Only) | Preferred Stock (260 units)(C)(L) | | 260 | 315 |
| | | Common Stock (975 units)(C)(L) | | | |
| | | | | 260 | 315 |
| Ginsey Home Solutions, Inc. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Secured Second Lien Term Debt (13.5%, Due 1/2018)(H)(L) | 13,300 | 13,300 | 13,300 |
| | | Preferred Stock (19,280 shares)(C)(L) | | 9,583 | 4,813 |
| | | Common Stock (63,747 shares)(C)(L) | | 8 | |
| | | | | 22,891 | 18,113 |
| Jackrabbit, Inc. | Farming and Agriculture | Secured First Lien Term Debt (13.5%, Due 4/2018)(L) | 11,000 | 11,000 | 11,000 |
| | | Preferred Stock (3,556 shares)(C)(L) | | 3,556 | 4,471 |
| | | Common Stock (548 shares)(C)(L) | | 94 | 934 |
| | | | | 14,650 | 16,405 |

| | | | | | |
|---|---|---|---|---|---|
| Mathey Investments, Inc. | Machinery (Non-agriculture, Non-construction, Non-electronic) | Secured First Lien Term Debt (10.0%, Due 3/2018)(L) | 1,375 | 1,375 | 1,375 |
| | | Secured First Lien Term Debt (12.0%, Due 3/2018)(L) | 3,727 | 3,727 | 3,727 |
| | | Secured First Lien Term Debt (12.5%, Due 3/2018)(E)(I)(L) | 3,500 | 3,500 | 3,500 |
| | | Common Stock (29,102 shares)(C)(L) | | 777 | 54 |
| | | | | 9,379 | 8,656 |
| Mitchell Rubber Products, Inc. | Chemicals, Plastics, and Rubber | Secured Second Lien Term Debt (13.0%, Due 10/2016)(I)(K) | 13,560 | 13,560 | 5,082 |
| | | Preferred Stock (27,900 shares)(C)(L) | | 2,790 | |
| | | Common Stock (27,900 shares)(C)(L) | | 28 | |
| | | | | 16,378 | 5,082 |
| Nth Degree, Inc. | Diversified/Conglomerate Service | Secured First Lien Term Debt (12.5%, Due 12/2020)(L) | 13,290 | 13,290 | 13,290 |
| | | Preferred Equity (5,660 units)(C)(L) | | 5,660 | 7,712 |
| | | | | 18,950 | 21,002 |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B)(F) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| Quench Holdings Corp. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Common Stock (4,770,391 shares)(C)(L) | $ | $ 3,397 | $ 4,359 |
| | | | | 3,397 | 4,359 |
| SBS Industries, LLC | Machinery (Non-agriculture, Non-construction, Non-electronic) | Secured First Lien Term Debt (14.0%, Due 8/2019)(L) | 11,355 | 11,355 | 11,355 |
| | | Preferred Stock (19,935 shares)(C)(L) | | 1,994 | |
| | | Common Stock (221,500 shares)(C)(L) | | 222 | |
| | | | | 13,571 | 11,355 |
| Schylling, Inc. | Leisure, Amusement, Motion Pictures, Entertainment | Secured First Lien Term Debt (13.0%, Due 8/2018)(L) | 13,081 | 13,081 | 13,081 |
| | | Preferred Stock (4,000 shares)(C)(L) | | 4,000 | 4,103 |
| | | | | 17,081 | 17,184 |
| Star Seed, Inc. | Farming and Agriculture | Secured First Lien Term Debt (12.5%, Due 5/2018)(E)(K) | 5,000 | 5,000 | 4,600 |
| | | Preferred Stock (1,499 shares)(C)(L) | | 1,499 | |
| | | Common Stock (600 shares)(C)(L) | | 1 | |
| | | | | 6,500 | 4,600 |
| **Total Non-Control/Non-Affiliate Investments (represents 37.1% of total investments at fair value)** | | | | **$ 191,757** | **$ 180,933** |
| **AFFILIATE INVESTMENTS(O):** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Acme Cryogenics, Inc. | Chemicals, Plastics, and Rubber | Secured Second Lien Term Debt (11.5%, Due 3/2020)(I)(Q) | $ 14,500 | $ 14,500 | $ 14,500 |
| | | Preferred Stock (965,982 shares)(C)(Q) | | 7,956 | 22,337 |
| | | Common Stock (549,908 shares)(C)(Q) | | 1,197 | 4,201 |
| | | Common Stock Warrants (465,639 shares)(C)(Q) | | 25 | 3,856 |
| | | | | 23,678 | 44,894 |
| Alloy Die Casting Corp.(M) | Diversified/Conglomerate Manufacturing | Secured First Lien Term Debt (13.5%, Due 10/2018)(K) | 12,215 | 12,215 | 11,390 |
| | | Preferred Stock (4,064 shares)(C)(L) | | 4,064 | 612 |
| | | Common Stock (630 shares)(C)(L) | | 41 | |
| | | | | 16,320 | 12,002 |
| Behrens Manufacturing, LLC(M) | Diversified/Conglomerate Manufacturing | Secured First Lien Term Debt (13.0%, Due 12/2018)(L) | 9,975 | 9,975 | 9,975 |
| | | Preferred Stock (2,923 shares)(C)(L) | | 2,922 | 8,593 |
| | | | | 12,897 | 18,568 |
| Brunswick Bowling Products, Inc. | Home and Office Furnishings, Housewares and Durable Consumer Products | Secured First Lien Term Debt (16.3%, Due 5/2020)(L) | 11,307 | 11,307 | 11,307 |
| | | Preferred Stock (4,943 shares)(C)(L) | | 4,943 | 5,267 |
| | | | | 16,250 | 16,574 |
| B+T Group Acquisition, Inc.(M) | Telecommunications | Secured First Lien Term Debt (13.0%, Due 12/2019)(L) | 14,000 | 14,000 | 14,000 |
| | | Preferred Stock (12,841 shares)(C)(L) | | 4,196 | |
| | | | | 18,196 | 14,000 |
| Cambridge Sound Management, Inc. | Home and Office Furnishing, Housewares and Durable Consumer Products | Secured First Lien Term Debt (13.0%, Due 9/2019)(L) | 15,000 | 15,000 | 15,000 |
| | | Preferred Stock (4,500 shares)(C)(L) | | 4,500 | 12,835 |
| | | | | 19,500 | 27,835 |
| | | | | 2,938 | 989 |

| | | | | | |
|---|---|---|---|---|---|
| Channel Technologies Group, LLC | Diversified/Conglomerate Manufacturing | Preferred Stock (2,319 shares)(C)(L) | | | |
| | | Common Stock (2,319,184 shares)(C)(L) | | | |
| | | | | 2,938 | 989 |
| Counsel Press, Inc. | Diversified/Conglomerate Services | Secured First Lien Line of Credit, $1,000 available (12.8% (1% Unused Fee), Due 3/2017)(L) | | | |
| | | Secured First Lien Term Debt (12.8%, Due 3/2020)(L) | 18,000 | 18,000 | 18,000 |
| | | Secured First Lien Term Debt (14.0%, Due 3/2020)(L) | 5,500 | 5,500 | 5,500 |
| | | Preferred Stock (6,995 shares)(C)(L) | | 6,995 | 5,399 |
| | | | | 30,495 | 28,899 |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company(A) | Industry | Investment(B)(F) | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| D.P.M.S., Inc. | Diversified/Conglomerate Manufacturing | Secured First Lien Line of Credit, $550 available (4.0% (0.5% Unused Fee), Due 8/2017)(I)(L) | $ 4,000 | $ 4,000 | $ 4,000 |
| | | Secured First Lien Term Debt (4.0%, Due 8/2017)(I)(L) | 2,575 | 2,575 | 2,575 |
| | | Secured First Lien Term Debt (4.0%, Due 8/2017)(I)(L) | 8,795 | 8,795 | 2,073 |
| | | Secured First Lien Term Debt (5.2%, Due 8/2017)(E)(L) | 1,150 | 1,150 | |
| | | Preferred Stock (25 shares)(C)(L) | | 2,500 | |
| | | Common Stock (1,241 shares)(C)(L) | | 3 | |
| | | | | 19,023 | 8,648 |
| Edge Adhesives Holdings, Inc.(M) | Diversified/Conglomerate Manufacturing | Secured First Lien Term Debt (12.5%, Due 2/2019)(K) | 9,300 | 9,300 | 8,928 |
| | | Secured First Lien Term Debt (13.8%, Due 2/2019)(K) | 2,400 | 2,400 | 2,310 |
| | | Preferred Stock (3,774 units)(C)(L) | | 3,774 | |
| | | | | 15,474 | 11,238 |
| GI Plastek, Inc. | Chemicals, Plastics, and Rubber | Secured First Lien Term Debt (13.3%, Due 7/2020)(L) | 15,000 | 15,000 | 15,000 |

| | | | | | |
|---|---|---|---|---|---|
| | | Preferred Stock (5,150 units)(C)(L) | | 5,150 | 5,672 |
| | | | | 20,150 | 20,672 |
| Head Country, Inc. | Beverage, Food and Tobacco | Secured First Lien Term Debt (12.5%, Due 2/2019)(L) | 9,050 | 9,050 | 9,050 |
| | | Preferred Stock (4,000 shares)(C)(L) | | 4,000 | |
| | | | | 13,050 | 9,050 |
| Logo Sportswear, Inc. | Textiles and Leather | Secured First Lien Term Debt (12.5%, Due 3/2020)(L) | 9,200 | 9,200 | 9,200 |
| | | Preferred Stock (1,550 shares)(C)(L) | | 1,550 | 2,795 |
| | | | | 10,750 | 11,995 |
| Meridian Rack & Pinion, Inc. (M) | Automobile | Secured First Lien Term Debt (13.5%, Due 12/2018)(K) | 9,660 | 9,660 | 8,791 |
| | | Preferred Stock (3,381 shares)(C)(L) | | 3,381 | 988 |
| | | | | 13,041 | 9,779 |
| NDLI, Inc. | Cargo Transport | Preferred Stock (3,600 shares)(C)(L) | | 3,600 | |
| | | Common Stock (545 shares)(C)(L) | | | |
| | | | | 3,600 | |
| Old World Christmas, Inc. | Home and Office Furnishings, Housewares, and Durable Consumer Products | Secured First Lien Term Debt (13.3%, Due 10/2019)(L) | 15,770 | 15,770 | 15,770 |
| | | Preferred Stock (6,180 shares)(C)(L) | | 6,180 | 4,159 |
| | | | | 21,950 | 19,929 |
| Precision Southeast, Inc. | Diversified/Conglomerate Manufacturing | Secured Second Lien Term Debt (14.0%, Due 9/2020)(L) | 9,618 | 9,618 | 9,618 |
| | | Preferred Stock (37,391 shares)(C)(L) | | 3,739 | 3,922 |
| | | Common Stock (90,909 shares)(C)(L) | | 91 | |
| | | | | 13,448 | 13,540 |
| | | | 6,200 | 6,200 | 6,200 |

| | | | | | |
|---|---|---|---|---|---|
| SOG Specialty Knives & Tools, LLC | Leisure, Amusement, Motion Pictures, Entertainment | Secured First Lien Term Debt (13.3%, Due 10/2017)(L) | | | |
| | | Secured First Lien Term Debt (14.8%, Due 10/2017)(L) | 12,200 | 12,200 | 12,200 |
| | | Preferred Stock (9,749 shares)(C)(L) | | 9,749 | 7,747 |
| | | | | 28,149 | 26,147 |
| Tread Corporation | Oil and Gas | Secured First Lien Line of Credit, $2,424 available (12.5%, Due 2/2018)(G)(L) | 1,426 | 1,426 | 1,426 |
| | | Preferred Stock (12,998,639 shares)(C)(L) | | 3,768 | 538 |
| | | Common Stock (10,089,048 shares)(C)(L) | | 753 | |
| | | | | 5,947 | 1,964 |
| **Total Affiliate Investments (represents 60.8% of total investments at fair value)** | | | | **$ 304,856** | **$ 296,723** |

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

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**GLADSTONE INVESTMENT CORPORATION**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2016**

**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company[A] | Industry | Investment[B][F] | Principal | Cost | Fair Value |
|---|---|---|---|---|---|
| **CONTROL INVESTMENTS[P]:** | | | | | |
| Galaxy Tool Holding Corporation | Aerospace and Defense | Secured First Lien Line of Credit, $0 available (6.5% (1.0% Unused Fee), Due 9/2016)[L] | $ 5,000 | $ 5,000 | $ 5,000 |
| | | Secured Second Lien Term Debt (10.0%, Due 8/2017)[L] | 5,000 | 5,000 | 5,000 |
| | | Preferred Stock (5,517,444 shares)[C][L] | | 11,464 | |
| | | Common Stock (88,843 shares)[C][L] | | 48 | |
| | | | | 21,512 | 10,000 |
| **Total Control Investments (represents 2.1% of total investments at fair value)** | | | | **$ 21,512** | **$ 10,000** |
| **TOTAL INVESTMENTS[R]** | | | | **$ 518,125** | **$ 487,656** |

(A) Certain of the securities listed are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $461.4 million at fair value, are pledged as collateral to our revolving line of credit as described further in Note 5 *Borrowings*. Additionally, all of our investments are considered qualifying assets under Section 55 of the Investment Company Act of 1940, as amended, (the 1940 Act ) as of March 31, 2016. Under the 1940 Act, we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets.

(B) Percentages represent the weighted average cash interest rates in effect at March 31, 2016, and due date represents the contractual maturity date. Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate. If applicable, paid-in-kind interest rates are noted separately from the cash interest rates.

(C) Security is non-income producing.

(D) Refer to Note 10 *Commitments and Contingencies* for additional information regarding these guaranties.

(E) Last Out Tranche ( LOT ) of secured first lien debt, meaning if the portfolio company is liquidated, the holder of the LOT generally is paid after the other secured first lien debt but before the secured second lien debt.

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

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

(H) $5.1 million of the debt security was participated to a third party, but is accounted for as collateral for a secured borrowing under accounting principles generally accepted in the U.S. and presented as secured borrowing on our accompanying *Consolidated Statements of Assets and Liabilities* as of March 31, 2016.

(I) Debt security has a fixed interest rate.

(J) Reserved.

(K) Fair value was based on internal yield analysis or on estimates of value submitted by Standard & Poor s Securities Evaluations, Inc. Refer to Note 3 *Investments* for additional information.

(L) Fair value was based on the total enterprise value of the portfolio company, which is generally allocated to the portfolio company s securities in order of their relative priority in the capital structure. Refer to Note 3 *Investments* for additional information.

(M) One of our affiliated funds, Gladstone Capital Corporation, co-invested with us in this portfolio company pursuant to an exemptive order granted by the U.S. Securities and Exchange Commission.

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

(O) Affiliate investments, as defined by the 1940 Act, are those that are not Control investments and in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities.

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

(Q) Fair value was based on the expected exit or payoff amount, where such event has occurred or is expected to occur imminently.

(R) Cumulative gross unrealized depreciation for federal income tax purposes is $86.2 million; cumulative gross unrealized appreciation for federal income tax purposes is $60.4 million. Cumulative net unrealized depreciation is $25.8 million, based on a tax cost of $513.5 million.

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

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**GLADSTONE INVESTMENT CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

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

## NOTE 1. ORGANIZATION

Gladstone Investment Corporation ( Gladstone Investment ) was incorporated under the General Corporation Law of the State of Delaware on February 18, 2005, and completed an initial public offering on June 22, 2005. The terms the Company, we, our and us all refer to Gladstone Investment and its consolidated subsidiaries. We are an externally advised, closed-end, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ), and is applying the guidance of Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 946 *Financial Services-Investment Companies* ( ASC 946 ). In addition, we have elected to be treated for tax purposes as a regulated investment company ( RIC ) under the Internal Revenue Code of 1986, as amended (the Code ). We were established for the purpose of investing in debt and equity securities of established private businesses in the United States ( U.S. ). Debt investments primarily take the form of two types of loans: secured first lien loans and secured second lien loans. Equity investments primarily take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to our stockholders that grow over time, and (2) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow in value over time to permit us to sell our equity investments for capital gains. We aim to maintain a portfolio allocation of approximately 75.0% debt investments and 25.0% equity investments, at cost.

Gladstone Business Investment, LLC ( Business Investment ), a wholly-owned subsidiary of ours, was established on August 11, 2006 for the sole purpose of owning our portfolio of investments in connection with our line of credit. The financial statements of Business Investment are consolidated with those of Gladstone Investment. We also have significant subsidiaries (as defined under Rule 1-02(w) of the U.S. Securities and Exchange Commission s ( SEC ) Regulation S-X) whose financial statements are not consolidated with ours. Refer to Note 12 *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by Gladstone Management Corporation (the Adviser ), an affiliate of ours and an SEC registered investment adviser, pursuant to an investment advisory agreement and management agreement. Administrative services are provided by Gladstone Administration, LLC (the Administrator ), an affiliate of ours and the Adviser, pursuant to an administration agreement. Refer to Note 4 *Related Transactions* for more information regarding these arrangements.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Unaudited Interim Financial Statements and Basis of Presentation*

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. ( GAAP ) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of SEC Regulation S-X under the Securities Exchange Act of 1934, as amended. Accordingly, we have not included in this quarterly report all of the information and notes required by GAAP for annual financial statements. The accompanying *Consolidated Financial Statements* include our accounts and those of our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. In accordance with Article 6 of Regulation S-X, under the Securities Act of 1933, we do not consolidate portfolio company investments. Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants ( AICPA ) Audit and Accounting Guide for Investment Companies, codified in ASC 946, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three and six months ended September 30, 2016 are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended March 31, 2016, as filed with the SEC on May 17, 2016.

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*Use of Estimates*

Preparing financial statements requires management to make estimates and assumptions that affect the amounts reported in our accompanying Consolidated Financial Statements and accompanying notes. Actual results may differ from those estimates.

*Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year presentation.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ( ASU 2015-03 ), which simplifies the presentation of debt issuance costs. ASU 2015-03 requires the presentation of debt issuance costs as a deduction from the carrying amount of the related debt liability instead of as a deferred financing cost asset on the balance sheet. In August 2015, the FASB issued Accounting Standards Update 2015-15, *Interest Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ( ASU 2015-15 ), which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line of credit arrangements as assets. ASU 2015-03 was effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, and we adopted ASU 2015-03 during the three months ended June 30, 2016. ASU 2015-15 was effective immediately and we opted to continue to present debt issuance costs related to line of credit arrangements as assets.

As of June 30, 2016 and March 31, 2016, we had unamortized deferred financing costs related to our mandatorily redeemable preferred stock of $3.0 million and $3.2 million, respectively. These costs have been reclassified from Deferred financing costs, net, to Mandatorily redeemable preferred stock, net. All periods presented have been retrospectively adjusted.

The following table summarizes the retrospective adjustment and the overall impact on the previously reported consolidated financial statements:

| | March 31, 2016 | |
|---|---|---|
| | As Previously Reported | Retrospective Application |
| Deferred financing costs, net | $ 4,332 | $ 1,147 |
| Mandatorily redeemable preferred stock, net | 121,650 | 118,465 |

*Investment Valuation Policy*

Accounting Recognition

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

depreciation when gains or losses are realized.

Board Responsibility

In accordance with the 1940 Act, our Board of Directors has the ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments based on our investment valuation policy (which has been approved by our Board of Directors) (the Policy ). Such review occurs in three phases. First, prior to its quarterly meetings, the Board of Directors receives written valuation recommendations and supporting materials provided by professionals of the Adviser and Administrator with oversight and direction from our chief valuation officer (the Valuation Team ). Second, the Valuation Committee of our Board of Directors (comprised entirely of independent directors) meets to review the valuation recommendations and supporting materials. Third, after the Valuation Committee concludes its meeting, it and the chief valuation officer present the Valuation Committee s findings to the entire Board of Directors so that the full Board of Directors may review and approve the fair value of our investments in accordance with the Policy.

There is no single standard for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. In determining the fair value of our investments, the Valuation Team, led by the chief valuation officer, uses the Policy and each quarter the Valuation Committee and Board of Directors review the Policy to determine if changes thereto are advisable and also review whether the Valuation Team has applied the Policy consistently.

Use of Third Party Valuation Firms

The Valuation Team engages third party valuation firms to provide independent assessments of fair value of certain of our investments.

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

We may engage other independent valuation firms to provide earnings multiple ranges, as well as other information, and evaluate such information for incorporation into the total enterprise value of certain of our investments. Generally, at least once per year, we engage an independent valuation firm to value or review our valuation of our significant equity investments, which includes providing the information noted above. The Valuation Team evaluates such information for incorporation into our total enterprise value, including review of all inputs provided by the independent valuation firm. The Valuation Team then makes a recommendation to our Valuation Committee and Board of Directors as to the fair value. Our Board of Directors reviews the recommended fair value, whether it is reasonable in light of the Policy, as well as other relevant facts and circumstances and then votes to accept or reject the Valuation Team s recommended fair value.

Valuation Techniques

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

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

TEV is primarily calculated using EBITDA or revenue multiples; however, TEV may also be calculated using a discounted cash flow ( DCF ) analysis whereby future expected cash flows of the portfolio company are discounted to determine a net present value using estimated risk-adjusted discount rates, which incorporate adjustments for

nonperformance and liquidity risks. Generally, the Valuation Team uses the DCF to calculate TEV to corroborate estimates of value for our equity investments where we do not have the ability to effectuate a sale of a portfolio company or for debt of credit impaired portfolio companies.

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

*Market Quotes* For our investments for which a limited market exists, we generally base fair value on readily available and reliable market quotations, which are corroborated by the Valuation Team (generally by using the yield analysis explained above). In addition, the Valuation Team assesses trading activity for similar investments and evaluates variances in quotations and other market insights to determine if any available quoted prices are reliable. Typically, the Valuation Team uses the lower indicative bid price ( IBP ) in the bid-to-ask price range obtained from the respective originating syndication agent s trading desk on or near the valuation date. The Valuation Team may take further steps to consider additional information to validate that price in accordance with the Policy.

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*Investments in* Funds For equity investments in other funds, where we cannot effectuate a sale, the Valuation Team generally determines the fair value of our uninvested capital at par value and of our invested capital at the Net Asset Value ( NAV ) provided by the fund. The Valuation Team may also determine fair value of our investments in other investment funds based on the capital accounts of the underlying entity.

In addition to the valuation techniques listed above, the Valuation Team may also consider other factors when determining the fair value of our investments, including but not limited to: the nature and realizable value of the collateral, including external parties guaranties; any relevant offers or letters of intent to acquire the portfolio company; timing of expected loan repayments; and the markets in which the portfolio company operates. If applicable, new and follow-on debt and equity investments made during the current reporting quarter are generally valued at our original cost basis.

Fair value measurements of our investments may involve subjective judgments and estimates and, due to the uncertainty inherent in valuing these securities, the Adviser s determinations of fair value may fluctuate from period to period and may differ materially from the values that could be obtained if a ready market for these securities existed. Our NAV could be materially affected if the Adviser s determinations regarding the fair value of our investments are materially different from the values that we ultimately realize upon our disposal of such securities. Additionally, changes in the market environment and other events that may occur over the life of the investment may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which it is recorded.

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

*Revenue Recognition*

Interest Income Recognition

Interest income, adjusted for amortization of premiums, amendment fees and acquisition costs and the accretion of discounts, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management s judgment. Generally, non-accrual loans are restored to accrual status when past-due principal and interest are paid, and, in management s judgment, are likely to remain current, or due to a restructuring, the interest income is deemed to be collectible. As of September 30 and March 31, 2016 our loan to Tread Corporation ( Tread ) was on non-accrual status, with an aggregate debt cost basis of $3.2 million and $1.4 million, or 0.9% and 0.4% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $2.4 million and $1.4 million, or 0.7% and 0.4% of the fair value of all debt investments in our portfolio, respectively.

Paid-in-kind ( PIK ) interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income over the life of the obligation. As of September 30 and March 31, 2016, we did not have any loans with a PIK interest component. During the three and six months ended September 30, 2016 and 2015, we did not record any PIK income, nor did we collect any PIK interest in cash.

Other Income Recognition

We record success fee income when earned, which often occurs upon receipt of cash. Success fees are generally contractually due upon a change of control in a portfolio company, typically from an exit or sale. We did not record any success fee income during the three and six months ended September 30, 2016. During the three and six months ended September 30, 2015, we recorded success fee income of $0 and $0.9 million, respectively.

We accrue dividend income on preferred and common equity securities of our portfolio companies to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash or other consideration. During the three and six months ended September 30, 2016, we recorded dividend income of $12 and $2.8 million, respectively. During the three and six months ended September 30, 2015, we recorded dividend income of $1.8 million and $2.2 million, respectively.

Both success fee and dividend income are recorded in other income in our accompanying *Consolidated Statements of Operations*.

*Deferred Financing and Offering Costs*

Deferred financing and offering costs consist of costs incurred to obtain financing, including lender fees and legal fees. Certain costs associated with our revolving line of credit are deferred and amortized using the straight-line method, which approximates the effective interest method, over the term of the revolving line of credit. Costs associated with the issuance of our mandatorily redeemable preferred stock are presented as discounts to the liquidation value of the mandatorily redeemable preferred stock and are amortized using the straight-line method, which approximates the effective interest method, over the terms of the respective financings. See Note 5 *Borrowings* and Note 6 *Mandatorily Redeemable Preferred Stock* for further discussion.

*Related Party Fees*

We have entered into an investment advisory and management agreement (the Advisory Agreement ) with the Adviser, which is owned and controlled by our chairman and chief executive officer. In accordance with the Advisory Agreement, we pay the Adviser fees as compensation for its services, consisting of a base management fee and an incentive fee. Additionally, we pay the Adviser a loan servicing fee as compensation for its services as servicer under the terms of our Fifth Amended and Restated Credit Agreement dated April 30, 2013, as amended (our Credit Facility ).

We have entered into an administration agreement (the Administration Agreement ) with the Administrator, which is owned and controlled by our chairman and chief executive officer, whereby we pay separately for administrative services. These fees are accrued when the services are performed and generally paid one month in arrears.

Refer to Note 4 *Related Party Transactions* for additional information regarding these related party fees and agreements.

*Recent Accounting Pronouncements*

In August 2016, the FASB issued Accounting Standards Update 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) ( ASU 2016-15 ), which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. We are currently assessing the impact of ASU 2016-15 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted.

In March 2016, the FASB issued Accounting Standards Update 2016-06, *Contingent Put and Call Options in Debt Instruments* ( ASU 2016-06 ), which clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related. We are currently assessing the impact of ASU 2016-06 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2016-06 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted.

In January 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* ( ASU 2016-01 ), which changes how entities measure certain equity investments and how entities present changes in the fair value of financial liabilities measured under the

fair value option that are attributable to instrument-specific credit risk. We are currently assessing the impact of ASU 2016-01 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted for certain aspects of ASU 2016-01 relating to the recognition of changes in fair value of financial liabilities when the fair value option is elected.

In May 2015, the FASB issued Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent)* ( ASU 2015-07 ), which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value per share (or its equivalent) using the practical expedient in the FASB s fair value measurement guidance. The adoption of ASU 2015-07 did not have a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-07 is required to be adopted retrospectively and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, and we adopted ASU 2015-07 effective April 1, 2016.

In February 2015, the FASB issued Accounting Standards Update 2015-02, *Amendments to the Consolidation Analysis* ( ASU 2015-02 ), which amends or supersedes the scope and consolidation guidance under existing GAAP. The adoption of ASU 2015-02 did not have a material impact on our financial position, results of operations or cash flows. ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, and we adopted ASU 2015-02 effective April 1, 2016. In October 2016, the FASB issued Accounting Standards Update 2016-17, *Interests Held through Related Parties That Are under Common Control* ( ASU 2016-17 ), which amends the consolidation guidance in ASU 2015-02 regarding the treatment of indirect interests held through related parties that are under common control. We are currently assessing the impact of ASU 2016-17 and do not anticipate a material impact on our financial position, results of operations or cash flows. ASU 2016-17 is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those years, with early adoption permitted.

In August 2014, the FASB issued Accounting Standards Update 2014 15, *Presentation of Financial Statements Going Concern (Subtopic 205 40): Disclosure of Uncertainties About an Entity s Ability to Continue as a Going Concern* ( ASU 2014-15 ). ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity s ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Since this guidance is primarily around certain disclosures to the financial statements, we anticipate no impact on our financial position, results of operations or cash flows from adopting this standard. We are currently assessing the additional disclosure requirements, if any, of ASU 2014-15. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter, with early adoption permitted.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ), as amended in March 2016 by FASB Accounting Standards Update 2016-08, *Principal versus Agent Considerations* ( ASU 2016-08 ), in April 2016 by FASB Accounting Standards Update 2016-10, *Identifying Performance Obligations and Licensing* ( ASU 2016-10 ), and in May 2016 by FASB Accounting Standards Update 2016-12, *Narrow-Scope Improvements and Practical Expedients* ( ASU 2016-12 ), which supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. We are currently assessing the impact of ASU 2014-09, as amended, and do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. In July 2015, the FASB issued Accounting Standards Update 2015-14, *Deferral of the Effective Date,* which deferred the effective date of ASU 2014-09. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12, is now effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years, with early adoption permitted for annual reporting periods beginning after December 15, 2016 and interim periods within those years.

**NOTE 3. INVESTMENTS**

*Fair Value*

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

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

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

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

When a determination is made to classify our investments within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

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As of September 30, 2016 and March 31, 2016, all of our investments were valued using Level 3 inputs within the ASC 820 fair value hierarchy. We transfer investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the three and six months ended September 30, 2016 and 2015, there were no transfers in or out of Level 1, 2 and 3.

The following table presents our portfolio investments carried at fair value as of September 30, 2016 and March 31, 2016, by caption on our accompanying *Consolidated Statements of Assets and Liabilities,* and by security type:

| | **Total Recurring Fair Value Measurements Reported in *Consolidated Statements of Assets and Liabilities*** | |
|---|---|---|
| | **September 30, 2016** | **March 31, 2016** |
| **Non-Control/Non-Affiliate Investments** | | |
| Secured first lien debt | **$ 91,231** | $ 92,343 |
| Secured second lien debt | **41,278** | 35,366 |
| Preferred equity | **33,132** | 31,696 |
| Common equity/equivalents | **22,259** | 21,528 |
| **Total Non-Control/Non-Affiliate Investments** | **187,900** | 180,933 |
| **Affiliate Investments** | | |
| Secured first lien debt | **166,377** | 182,694 |
| Secured second lien debt | **44,218** | 24,118 |
| Preferred equity | **69,020** | 81,854 |
| Common equity/equivalents | | 8,057 |
| **Total Affiliate Investments** | **279,615** | 296,723 |
| **Control Investments** | | |
| Secured first lien debt | **4,500** | 5,000 |
| Secured second lien debt | **5,000** | 5,000 |
| Preferred equity | **8,957** | |
| Common equity/equivalents | | |
| **Total Control Investments** | **18,457** | 10,000 |
| **Total investments at fair value using Level 3 inputs** | **$ 485,972** | $ 487,656 |

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In accordance with the FASB s ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards* ( *IFRS* ) ( ASU 2011-04 ), the following table provides quantitative information about our investments valued using Level 3 fair value measurements as of September 30, 2016 and March 31, 2016. The table below is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted average calculations in the table below are based on the principal balances for all debt-related calculations and on the cost basis for all equity-related calculations for the particular input.

**Quantitative Information about Level 3 Fair Value Measurements**

| | Fair Value as of September 30, 2016 | Fair Value as of March 31, 2016 | Valuation Technique/ Methodology | Unobservable Input | Range / Weighted Average as of September 30, 2016 | Range / Weighted Average as of March 31, 2016 |
|---|---|---|---|---|---|---|
| ured first lien t | **$ 219,086**(A) | $ 238,707 | TEV | EBITDA multiple | 4.2x 7.8x / 6.0x | 4.4x 8.2x / 6.3 |
| | | | | EBITDA | $1,057 - $10,486 / $4,037 | $970 - $8,713 / $3,374 |
| | | | | Discount Rate | | 20.0% - 20.0% / 20.0 |
| | **43,022**(B) | 41,330(B) | Yield Analysis | Discount Rate | 13.5% - 18.5% / 16.2% | 14.2% - 17.7% / 16.4 |
| ured second lien t | **66,518**(C) | 46,418(C) | TEV | EBITDA multiple | 5.2x 7.3x / 6.3x | 5.5x 6.2x / 5.9 |
| | | | | EBITDA | $2,559 - $5,391 / $4,611 | $2,718 - $4,851 / $3, |
| | **23,978** | 18,066 | Yield Analysis | Discount Rate | 9.7% - 18.8% / 14.3% | 10.1% - 20.0% / 15.1% |
| ferred equity(D) | **111,109** | 113,550 | TEV | EBITDA multiple | 4.2x 7.8x / 6.1x | 4.4x 8.2x / 6.4 |
| | | | | EBITDA | $1,057 - $86,041 / $4,456 | $0 - $76,487 / $3,56 |
| | | | | Discount Rate | 20.0% - 20.0% / 20.0% | 20.0% - 20.0% / 20.0 |
| | | | | Revenue multiple | | 0.2x 0.5x / 0.4 |
| | | | | Revenue | | $29,300 - $56,937 $42,761 |
| nmon ity/equivalents(E) | **22,259** | 29,585 | TEV | EBITDA multiple | 4.2x 11.0x / 8.6x | 4.4x 11.0x / 8.7 |
| | | | | EBITDA | $1,057 - $17,465 / $10,917 | $0 - $76,487 / $82 |
| | | | | Discount Rate | 20.0% - 20.0% / 20.0% | 20.0% - 20.0% / 20.0 |

| | | | | | |
|---|---|---|---|---|---|
| | | | Revenue multiple | 0.2x | 0.5x / 0.2x |
| | | | Revenue | $29,300 - $56,937 | $56,937 |
| al | $ 485,972 | $ 487,656 | | | |

(A) Fair value as of September 30, 2016 includes one proprietary debt investment for $10.8 million, which was valued at the expected payoff amount.

(B) Fair value as of September 30, 2016 includes one proprietary debt investment for $5.4 million, which was valued at the expected payoff amount. Fair value as of March 31, 2016 includes one proprietary debt investment for $5.3 million which was valued at the expected payoff amount.

(C) Fair value as of March 31, 2016 includes one proprietary debt investment for $14.5 million, which was valued at the expected payoff amount.

(D) Fair value as of September 30, 2016 includes one proprietary equity investment for $9.6 million, which was valued at the expected payoff amount. Fair value as of March 31, 2016 includes one proprietary equity investment for $22.3 million, which was valued at the expected exit amount.

(E) Fair value as of March 31, 2016 includes two proprietary equity investments for a combined $8.1 million, which were valued at the expected exit amount.

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

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*Changes in Level 3 Fair Value Measurements of Investments*

The following tables provide the changes in fair value of our portfolio, broken out by security type, during the three and six months ended September 30, 2016 and 2015 for all investments for which the Adviser determines fair value using unobservable (Level 3) inputs.

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

| | Secured First Lien Debt | Secured Second Lien Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Three months ended September 30, 2016:** | | | | | |
| Fair value as of June 30, 2016 | **$ 280,388** | **$ 69,990** | **$ 113,566** | **$ 27,037** | **$ 490,981** |
| Total gain (loss): | | | | | |
| Net realized gain (loss)[A] | | | | 20 | 20 |
| Net unrealized appreciation (depreciation)[B] | (3,240) | 4,506 | (1,509) | (4,778) | (5,021) |
| Reversal of previously recorded appreciation upon realization[B] | | | | | |
| New investments, repayments and settlements[C]: | | | | | |
| Issuances / originations | 1,210 | 1,000 | | | 2,210 |
| Settlements / repayments | (1,250) | | | | (1,250) |
| Sales | | | (948) | (20) | (968) |
| Transfers[D] | (15,000) | 15,000 | | | |
| **Fair value as of September 30, 2016** | **$ 262,108** | **$ 90,496** | **$ 111,109** | **$ 22,259** | **$ 485,972** |

| | Secured First Lien Debt | Secured Second Lien Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Six months ended September 30, 2016:** | | | | | |
| Fair value as of March 31, 2016 | **$ 280,037** | **$ 64,484** | **$ 113,550** | **$ 29,585** | **$ 487,656** |
| Total gain (loss): | | | | | |
| Net realized gain (loss)[A] | | | | 18,826 | 18,826 |
| Net unrealized appreciation (depreciation)[B] | (4,954) | 5,912 | 14,095 | 229 | 15,282 |
| Reversal of previously recorded appreciation upon realization[B] | | | (14,381) | (6,835) | (21,216) |
| New investments, repayments and settlements[C]: | | | | | |
| Issuances / originations | 4,186 | 19,600 | 6,899 | 501 | 31,186 |
| Settlements / repayments | (2,161) | (14,500) | | | (16,661) |
| Sales | | | (9,054) | (20,047) | (29,101) |
| Transfers[D] | (15,000) | 15,000 | | | |
| **Fair value as of September 30, 2016** | **$ 262,108** | **$ 90,496** | **$ 111,109** | **$ 22,259** | **$ 485,972** |

| | Secured First Lien Debt | Secured Second Lien Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Three months ended September 30, 2015:** | | | | | |
| Fair value as of June 30, 2015 | **$ 279,027** | **$ 65,067** | **$ 112,745** | **$ 24,404** | **$ 481,243** |
| Total gain (loss): | | | | | |
| Net realized (loss) gain[(A)] | (2,740) | | (1) | 1 | (2,740) |
| Net unrealized (depreciation) appreciation[(B)] | 1,943 | (3,675) | (6,135) | 2,468 | (5,399) |
| Reversal of previously recorded depreciation (appreciation) upon realization[(B)] | 3,489 | | (1,483) | | 2,006 |
| New investments, repayments and settlements[(C)]: | | | | | |
| Issuances / originations | 17,569 | 13,000 | 5,150 | | 35,719 |
| Settlements / repayments | (18,350) | | | | (18,350) |
| Sales | | | (1,844) | | (1,844) |
| Transfers | | | | | |
| **Fair value as of September 30, 2015** | **$ 280,938** | **$ 74,392** | **$ 108,432** | **$ 26,873** | **$ 490,635** |

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| | Secured First Lien Debt | Secured Second Lien Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Six months ended September 30, 2015:** | | | | | |
| Fair value as of March 31, 2015 | **$ 267,545** | **$ 65,974** | **$ 111,090** | **$ 21,444** | **$ 466,053** |
| Total gain (loss): | | | | | |
| Net realized (loss) gain[(A)] | (2,740) | | (1) | 216 | (2,525) |
| Net unrealized (depreciation)[(B)] | 5,775 | (3,782) | (9,723) | 5,638 | (2,092) |
| Reversal of previously recorded depreciation (appreciation) upon realization[(B)] | 3,489 | | (1,483) | (110) | 1,896 |
| New investments, repayments and settlements[(C)]: | | | | | |
| Issuances / originations | 29,652 | 13,000 | 10,393 | | 53,045 |
| Settlements / repayments | (22,783) | (800) | | | (23,583) |
| Sales | | | (1,844) | (315) | (2,159) |
| Transfers | | | | | |
| **Fair value as of September 30, 2015** | **$ 280,938** | **$ 74,392** | **$ 108,432** | **$ 26,873** | **$ 490,635** |

(A) Included in net realized gain (loss) on investments on our accompanying *Consolidated Statements of Operations* for the respective periods ended September 30, 2016 and 2015.

(B) Included in net unrealized appreciation (depreciation) of investments on our accompanying *Consolidated Statements of Operations* for the periods ended September 30, 2016 and 2015.

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

(D) Transfers represent $15.0 million of secured first lien debt of Cambridge Sound Management, Inc. ( Cambridge ), which was converted into secured second lien debt in August 2016.

*Investment Activity*

During the six months ended September 30, 2016, the following significant transactions occurred:

In April 2016, we sold our investment in Acme Cryogenics, Inc. ( Acme ), which resulted in dividend income of $2.8 million and a net realized gain of $18.8 million. In connection with the sale, we received net cash proceeds of $44.6 million, including the repayment of our debt investment of $14.5 million at par and net receivables of $0.6 million, which were recorded within Other assets, net.

In May 2016, we invested $25.5 million in The Mountain Corporation ( The Mountain ) through a combination of secured second lien debt and preferred equity. The Mountain, headquartered in Keene, New Hampshire, is a designer and manufacturer of premium quality, bold artwear apparel serving a diverse global customer base.

*Investment Concentrations*

As of September 30, 2016, our investment portfolio consisted of investments in 36 portfolio companies located in 19 states across 17 different industries with an aggregate fair value of $486.0 million, of which our investments in Counsel Press Inc. ( Counsel Press ), Cambridge, The Mountain, Old World Christmas, Inc. ( Old World ), and GI Plastek, Inc. ( GI Plastek ), our five largest portfolio investments at fair value, collectively comprised $125.1 million, or 25.9%, of our total investment portfolio at fair value. The following table summarizes our investments by security type as of September 30, 2016 and March 31, 2016:

| | **September 30, 2016** | | | | **March 31, 2016** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Cost** | | **Fair Value** | | **Cost** | | **Fair Value** | |
| Secured first lien debt | **$ 283,272** | **54.2%** | **$ 262,108** | **53.9%** | $ 296,247 | 57.2% | $ 280,037 | 57.4% |
| Secured second lien debt | **93,078** | **17.8** | **90,496** | **18.6** | 72,978 | 14.1 | 64,484 | 13.2 |
| Total debt | **376,350** | **72.0** | **352,604** | **72.5** | 369,225 | 71.3 | 344,521 | 70.6 |
| Preferred equity | **139,546** | **26.7** | **111,109** | **22.9** | 141,702 | 27.3 | 113,550 | 23.3 |
| Common equity/equivalents | **6,479** | **1.3** | **22,259** | **4.6** | 7,198 | 1.4 | 29,585 | 6.1 |
| Total equity/equivalents | **146,025** | **28.0** | **133,368** | **27.5** | 148,900 | 28.7 | 143,135 | 29.4 |
| **Total investments** | **$ 522,375** | **100.0%** | **$ 485,972** | **100.0%** | $ 518,125 | 100.0% | $ 487,656 | 100.0% |

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Investments at fair value consisted of the following industry classifications as of September 30, 2016 and March 31, 2016:

| | September 30, 2016 | | March 31, 2016 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Home and Office Furnishings, Housewares, and Durable Consumer Products | **$ 92,941** | **19.1%** | $ 86,811 | 17.8% |
| Diversified/Conglomerate Manufacturing | **60,544** | **12.5** | 64,986 | 13.3 |
| Chemicals, Plastics, and Rubber | **52,297** | **10.8** | 90,602 | 18.6 |
| Diversified/Conglomerate Service | **52,252** | **10.8** | 49,901 | 10.2 |
| Leisure, Amusement, Motion Pictures, Entertainment | **38,620** | **7.9** | 43,330 | 8.9 |
| Automobile | **24,540** | **5.0** | 24,402 | 5.0 |
| Personal and Non-Durable Consumer Products (Manufacturing Only) | **23,986** | **4.9** | 315 | 0.1 |
| Farming and Agriculture | **22,434** | **4.6** | 21,005 | 4.3 |
| Containers, Packaging, and Glass | **18,489** | **3.8** | 20,108 | 4.1 |
| Aerospace and Defense | **18,457** | **3.8** | 10,000 | 2.1 |
| Machinery (Non-agriculture, Non-construction, Non-electronic) | **16,263** | **3.4** | 20,011 | 4.1 |
| Cargo Transport | **15,130** | **3.1** | 14,484 | 3.0 |
| Textiles and Leather | **14,909** | **3.1** | 11,995 | 2.5 |
| Telecommunications | **14,000** | **2.9** | 14,000 | 2.9 |
| Beverage, Food, and Tobacco | **13,290** | **2.7** | 9,050 | 1.8 |
| Other < 2.0% | **7,820** | **1.6** | 6,656 | 1.3 |
| **Total investments** | **$ 485,972** | **100.0%** | $ 487,656 | 100.0% |

Investments at fair value were included in the following geographic regions of the U.S. as of September 30, 2016 and March 31, 2016:

| | September 30, 2016 | | March 31, 2016 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Northeast | **$ 168,495** | **34.7%** | $ 183,265 | 37.6% |
| South | **128,072** | **26.4** | 129,934 | 26.6 |
| West | **124,665** | **25.6** | 124,713 | 25.6 |
| Midwest | **64,740** | **13.3** | 49,744 | 10.2 |
| **Total investments** | **$ 485,972** | **100.0%** | $ 487,656 | 100.0% |

The geographic region indicates the location of the headquarters for our portfolio companies. A portfolio company may have additional business locations in other geographic regions.

*Investment Principal Repayments*

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of September 30, 2016:

| | | **Amount** |
|---|---|---|
| For the remaining six months ending March 31: | 2017 | $ 3,900 |
| For the fiscal years ending March 31: | 2018 | 93,460 |
| | 2019 | 82,766 |
| | 2020 | 86,109 |
| | 2021 | 75,515 |
| | Thereafter | 34,600 |
| | **Total contractual repayments** | **$ 376,350** |
| | Investments in equity securities | 146,025 |
| | **Total cost basis of investments held as of September 30, 2016:** | **$ 522,375** |

*Receivables from Portfolio Companies*

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies. Such receivables, net of any allowance for uncollectible receivables, are included in Other assets, net on our accompanying *Consolidated Statements of Assets and Liabilities*. We generally maintain an allowance for uncollectible receivables from portfolio companies when the receivable balance becomes 90 days or more past due or if it is determined, based upon management s judgment, that the portfolio company is unable to pay its obligations. We write off accounts receivable when collection efforts have been exhausted and the receivables are deemed uncollectible. As of September 30, 2016 and March 31, 2016, we had gross receivables from portfolio companies of $0.9 million and $1.0 million, respectively. The allowance for uncollectible receivables was $0.2 million and $0.4 million as of September 30, 2016 and March 31, 2016, respectively.

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## NOTE 4. RELATED PARTY TRANSACTIONS

*Transactions with the Adviser*

We pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee, as provided for in the Advisory Agreement, and a loan servicing fee for the Adviser s role as servicer pursuant to our Credit Facility, each as described below. On July 12, 2016, our Board of Directors, including a majority of the directors who are not parties to the Advisory Agreement or interested persons of such party, approved the annual renewal of the Advisory Agreement through August 31, 2017.

Two of our executive officers, David Gladstone (our chairman and chief executive officer) and Terry Brubaker (our vice chairman and chief operating officer) serve as directors and executive officers of the Adviser, which is 100% indirectly owned and controlled by Mr. Gladstone. David Dullum (our president) is also an executive managing director of the Adviser.

The following table summarizes the base management fees, loan servicing fees, incentive fees, and associated voluntary, non-contractual and irrevocable credits reflected in our accompanying *Consolidated Statements of Operations*:

| | **Three Months Ended September 30,** | | **Six Months Ended September 30,** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Average total assets subject to base management fee[(A)] | **$ 497,800** | $ 502,000 | **$ 499,800** | $ 496,300 |
| Multiplied by prorated annual base management fee of 2.0% | **0.5%** | 0.5% | **1.0%** | 1.0% |
| **Base management fee[(B)]** | **2,489** | 2,510 | **4,998** | 4,963 |
| Credits to fees from Adviser - other[(B)] | **(1,114)** | (861) | **(1,951)** | (1,706) |
| **Net base management fee** | **$ 1,375** | $ 1,649 | **$ 3,047** | $ 3,257 |
| **Loan servicing fee[(B)]** | **1,722** | 1,707 | **3,403** | 3,266 |
| Credits to base management fee - loan servicing fee[(B)] | **(1,722)** | (1,707) | **(3,403)** | (3,266) |
| **Net loan servicing fee** | **$** | $ | **$** | $ |
| **Incentive fee[(B)]** | **$ 549** | $ 1,505 | **$ 2,249** | $ 2,796 |
| Credits to fees from Adviser - other[(B)] | | | | |
| **Net incentive fee** | **$ 549** | 1,505 | **2,249** | 2,796 |

(A) Average total assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at

the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.

(B) Reflected as a line item on our accompanying *Consolidated Statements of Operations*.

**Base Management Fee**

The base management fee is payable quarterly to the Adviser pursuant to our Advisory Agreement and is assessed at an annual rate of 2.0%, computed on the basis of the value of our average gross assets at the end of the two most recently completed quarters (inclusive of the current quarter), which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, and adjusted appropriately for any share issuances or repurchases during the period.

Additionally, pursuant to the requirements of the 1940 Act, the Adviser makes available significant managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance. Such services may include, but are not limited to: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. The Adviser voluntarily, unconditionally, and irrevocably credits 100% of these fees against the base management fee that we would otherwise be required to pay to the Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees, totaling \$75 and \$53 for the three month periods ended September 30, 2016 and 2015, respectively, and \$132 and \$109 for the six month periods ended September 30, 2016 and 2015, respectively, was retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser and primarily for the valuation of portfolio companies.

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### Loan Servicing Fee

The Adviser also services the loans held by our wholly-owned subsidiary, Business Investment (the borrower under our Credit Facility), in return for which the Adviser receives a 2.0% annual fee based on the monthly aggregate outstanding balance of loans pledged under our Credit Facility. Since Business Investment is a consolidated subsidiary of ours, coupled with the fact that the total base management fee paid to the Adviser pursuant to the Advisory Agreement cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given calendar year, we treat payment of the loan servicing fee pursuant to our Credit Facility as a pre-payment of the base management fee under the Advisory Agreement. Accordingly, these loan servicing fees are 100% voluntarily, unconditionally, and irrevocably credited back to us by the Adviser.

### Incentive Fee

The incentive fee payable to the Adviser under our Advisory Agreement consists of two parts: an income-based incentive fee and a capital gains-based incentive fee.

The income-based incentive fee rewards the Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets, adjusted appropriately for any share issuances or repurchases during the period (the Hurdle Rate ). The income-based incentive fee with respect to our pre-incentive fee net investment income is payable quarterly to the Adviser and is computed as follows:

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

- 100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the Hurdle Rate but is less than 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter (8.75% annualized); and

- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter (8.75% annualized).

The second part of the incentive fee is a capital gains-based incentive fee that is 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 20.0% of our realized capital gains, less any realized capital losses and unrealized depreciation, calculated as of the end of the preceding calendar year. The capital gains-based incentive fee payable to the Adviser is calculated based on (i) cumulative aggregate realized capital gains since our inception, less (ii) cumulative aggregate realized capital losses since our inception, less (iii) the entire portfolio s aggregate unrealized capital depreciation, if any, as of the date of the calculation. If this number is positive at the applicable calculation date, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. For calculation purposes, cumulative aggregate realized capital gains, if any, equals the sum of the excess between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the deficit between the net sales price of each investment, when sold, and the original cost of such investment since our

inception. The entire portfolio s aggregate unrealized capital depreciation, if any, equals the sum of deficit between the fair value of each investment security as of the applicable calculation date and the original cost of such investment security. We have not incurred capital gains-based incentive fees from inception through September 30, 2016, as cumulative net unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

Additionally, in accordance with GAAP, a capital gains-based incentive fee accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital depreciation included in the calculation of the capital gains-based incentive fee plus the aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a reporting period, then GAAP requires us to record a capital gains-based incentive fee equal to 20.0% 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 period. 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 any such unrealized capital appreciation will be realized in the future. There has been no GAAP accrual recorded for a capital gains-based incentive fee since our inception through September 30, 2016.

*Transactions with the Administrator*

We pay the Administrator pursuant to the Administration Agreement for our allocable portion of the Administrator s expenses incurred while performing services to us, which are primarily rent as well as salaries and benefits expenses of the Administrator s employees, including, but not limited to, our chief financial officer and treasurer, chief valuation officer, chief compliance officer and general counsel and secretary (who also serves as the Administrator s president) and their respective staffs. Our allocable portion of the Administrator s expenses is generally derived by multiplying the Administrator s total expenses by the approximate percentage of time during the current quarter the Administrator s employees performed services for us in relation to their time spent performing services for all companies serviced by the Administrator. These administrative fees are accrued at the end of the quarter when the services are performed and recorded on our accompanying *Consolidated Statements of Operations* and generally paid the following quarter. On July 12, 2016, our Board of Directors, including each of our independent directors, approved the annual renewal of the Administration Agreement through August 31, 2017.

*Other Transactions*

Gladstone Securities, LLC ( Gladstone Securities ), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation, which is 100% indirectly owned and controlled by Mr. Gladstone, our chairman and chief executive officer, has provided other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which Gladstone Securities receives a fee. Any such fees paid by portfolio companies to Gladstone Securities do not impact the fees we pay to the Adviser or the voluntary, unconditional, and irrevocable credits against the base management fee. The fees received by Gladstone Securities from portfolio companies totaled $0 and $0.2 million during the three month periods ended September 30, 2016 and 2015, respectively, and $0.3 million and $0.4 million during the six month periods ended September 30, 2016 and 2015, respectively.

*Related Party Fees Due*

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

| | As of September 30, 2016 | | As of March 31 2016 | |
|---|---|---|---|---|
| Base management and loan servicing fee due to Adviser, net of credits | **$** | **63** | $ | 647 |
| Incentive fee due to Adviser | | **549** | | 1,224 |
| Other due to Adviser | | **10** | | 41 |
| **Total fees due to Adviser** | **$** | **622** | $ | 1,912 |
| **Fee due to Administrator** | **$** | **275** | $ | 311 |
| **Total related party fees due** | **$** | **897** | $ | 2,223 |

Net co-investment expenses payable to Gladstone Capital Corporation, one of our affiliated funds, (for reimbursement purposes) and payables to other affiliates totaled $0 and $19 as of September 30, 2016 and March 31, 2016, respectively. These amounts are generally paid in full in the quarter subsequent to being incurred and have been

included in Other liabilities on the accompanying *Consolidated Statements of Assets and Liabilities* as of September 30, 2016 and March 31, 2016, respectively.

**NOTE 5. BORROWINGS**

*Revolving Line of Credit*

On June 26, 2014, we, through our wholly-owned subsidiary, Business Investment, entered into Amendment No. 1 to the Fifth Amended and Restated Credit Agreement originally entered into on April 30, 2013. The revolving period was extended to June 26, 2017, and if not renewed or extended by June 26, 2017, all principal and interest will be due and payable on or before June 26, 2019 (two years after the revolving period end date). Subject to certain terms and conditions, our Credit Facility can be expanded to a total facility amount of $250.0 million, through additional commitments of existing or new committed lenders. On September 19, 2014, we further increased our borrowing capacity under our Credit Facility to $185.0 million by entering into Joinder Agreements pursuant to our Credit Facility. Advances under our Credit Facility generally bear interest at 30-day London Interbank Offered Rate ( LIBOR ), plus 3.25% per annum, and our Credit Facility includes a fee of 0.50% on undrawn amounts. Once the revolving period ends, the interest rate margin increases to 3.75% for the period from June 26, 2017 to June 26, 2018, and further increases to 4.25% through maturity.

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

| | As of September 30, 2016 | As of March 31, 2016 |
|---|---|---|
| Commitment amount | **$ 185,000** | $ 185,000 |
| Borrowings outstanding at cost | **63,500** | 95,000 |
| Availability[A] | **121,500** | 90,000 |

| | For the Three Months Ended September 30, | | For the Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Weighted average borrowings outstanding | **$ 75,248** | $ 98,768 | **$ 77,549** | $ 100,943 |
| Effective interest rate[B] | **4.6%** | 4.0% | **4.5%** | 4.0% |
| Commitment (unused) fees incurred | **$ 140** | $ 107 | **$ 273** | $ 209 |

(A) Availability is subject to various constraints imposed under our Credit Facility, which equated to an adjusted availability of $80.7 million and $47.1 million as of September 30, 2016 and March 31, 2016, respectively.

(B) Excludes the impact of deferred financing costs and includes weighted average unused commitment fees.

Among other things, our Credit Facility contains a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatory redeemable term preferred stock) of $170 million plus 50% of all equity and subordinated debt raised minus any equity or subordinated debt redeemed or retired after June 26, 2014, which equates to $233.6 million as of September 30, 2016, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Sections 18 and 61 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of September 30, 2016, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $425.9 million, an asset coverage ratio on our senior securities representing indebtedness of 697.8%, calculated in compliance with the requirements of Sections 18 and 61 of the 1940 Act, and an active status as a BDC and RIC. Our Credit Facility requires a minimum of 12 obligors in the borrowing base and, as of September 30, 2016, we had 29 obligors. As of September 30, 2016, we were in compliance with all covenants under our Credit Facility.

Pursuant to the terms of our Credit Facility, in July 2013, we entered into an interest rate cap agreement with KeyBank National Association effective October 2013 for a notional amount of $45.0 million. The interest rate cap agreement expired in April 2016. Prior to its expiration in April 2016, the agreement effectively limited the interest rate on a portion of our borrowings under our Credit Facility. We incurred a premium fee of $75 in conjunction with this agreement, which was recorded in Net realized loss on other on our accompanying *Consolidated Statements of Operations* during the six months ended September 30, 2016. As of March 31, 2016, the fair value of our interest rate cap agreement was $0.

*Secured Borrowing*

In August 2012, we entered into a participation agreement with a third-party related to $5.0 million of our secured second lien term debt investment in Ginsey Home Solutions, Inc. ( Ginsey ). In May 2014, we amended the agreement with the third-party to include an additional $0.1 million. ASC Topic 860, *Transfers and Servicing* requires us to treat the participation as a financing-type transaction. Specifically, the third-party has a senior claim to our remaining

investment in the event of default by Ginsey which, in part, resulted in the loan participation bearing a rate of interest lower than the contractual rate established at origination. Therefore, our accompanying *Consolidated Statements of Assets and Liabilities* reflects the entire secured second lien term debt investment in Ginsey and a corresponding $5.1 million secured borrowing liability. The secured borrowing has a stated fixed interest rate of 7.0% and a maturity date of January 3, 2021.

*Fair Value*

We elected to apply the fair value option of ASC Topic 825, *Financial Instruments*, to our Credit Facility, which was consistent with our application of ASC 820 to our investments. Generally, the fair value of our Credit Facility is determined using a yield analysis which includes a DCF calculation and also takes into account the Valuation Team s own assumptions, including, but not limited to, the estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. At September 30, 2016 and March 31, 2016, the discount rate used to determine the fair value of our Credit Facility was 30-day LIBOR, plus 3.15% per annum, and 30-day LIBOR, plus 3.25% per annum, respectively, plus an unused fee of 0.59% and 0.5%, respectively. Generally, an increase or decrease in the discount rate used in the DCF calculation may result in a corresponding decrease or increase, respectively, in the fair value of our Credit Facility. At each of September 30, 2016 and March 31, 2016, our Credit Facility was valued using Level 3 inputs and any changes in its fair value are recorded in Net unrealized depreciation (appreciation) of other on our accompanying *Consolidated Statements of Operations*.

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The following tables present our Credit Facility carried at fair value as of September 30, 2016 and March 31, 2016, by caption on our accompanying *Consolidated Statements of Assets and Liabilities* for Level 3 of the hierarchy established by ASC 820 and a roll-forward of the changes in fair value during the three and six months ended September 30, 2016 and 2015:

| | Level 3 Borrowings Recurring Fair Value Measurements Reported in ***Consolidated Statements of Assets and Liabilities*** Using Significant Unobservable Inputs (Level 3) | |
|---|---|---|
| | **September 30, 2016** | **March 31, 2016** |
| Credit Facility | **$ 63,500** | $ 95,000 |

**Fair Value Measurements of Borrowings Using Significant Unobservable Inputs (Level 3) Reported in**
*Consolidated Statements* ***of Assets and Liabilities***

| | **Credit Facility** |
|---|---|
| **Three months ended September 30, 2016:** | |
| Fair value at June 30, 2016 | $ 79,600 |
| Borrowings | 6,100 |
| Repayments | (22,200) |
| **Fair value at September 30, 2016** | **$ 63,500** |
| **Six months ended September 30, 2016:** | |
| Fair value at March 31, 2016 | $ 95,000 |
| Borrowings | 37,200 |
| Repayments | (68,700) |
| **Fair value at September 30, 2016** | **$ 63,500** |

**Fair Value Measurements of Borrowings Using Significant Unobservable Inputs (Level 3) Reported in**
***Consolidated Statements of Assets and Liabilities***

| | | Credit Facility |
|---|---|---|
| **Three months ended September 30, 2015:** | | |
| Fair value at June 30, 2015 | $ | 89,750 |
| Borrowings | | 27,000 |
| Repayments | | (13,250) |
| **Fair value at September 30, 2015** | **$** | **103,500** |
| | | |
| **Six months ended September 30, 2015:** | | |
| Fair value at March 31, 2015 | $ | 118,800 |
| Borrowings | | 65,500 |
| Repayments | | (80,800) |
| **Fair value at September 30, 2015** | **$** | **103,500** |

The fair value of the collateral under our Credit Facility was $451.6 million and $461.4 million as of September 30, 2016 and March 31, 2016, respectively.

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**NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK**

In September 2016, we completed a public offering of 2,300,000 shares of 6.25% Series D Cumulative Term Preferred Stock (our Series D Term Preferred Stock or Series D ) at a public offering price of $25.00 per share. Gross proceeds totaled $57.5 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were $55.4 million. Total underwriting discounts and offering costs related to this offering were $2.1 million, which have been recorded as discounts to the liquidation value on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending September 30, 2023, the mandatory redemption date.

The shares of Series D Term Preferred Stock are traded under the ticker symbol GAINM on the NASDAQ Global Select Market ( NASDAQ ). Our Series D Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.25% per year, payable monthly. We are required to redeem all shares of our outstanding Series D Term Preferred Stock on September 30, 2023, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, two other potential mandatory redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series D Term Preferred Stock, and (2) if we fail to maintain an asset coverage ratio of at least 200% and are unable to correct such failure within a specific amount of time, we are required to redeem a portion of our outstanding Series D Term Preferred Stock or otherwise cure the ratio redemption trigger. We may also voluntarily redeem all or a portion of our Series D Term Preferred Stock at our sole option at the redemption price at any time on or after September 30, 2018.

In September 2016, we used a portion of the proceeds from the issuance of our Series D Term Preferred Stock to voluntarily redeem all 1.6 million outstanding shares of our 7.125% Series A Cumulative Term Preferred Stock (our Series A Term Preferred Stock or Series A ), which had a liquidation preference of $25.00 per share. In connection with the voluntary redemption of our Series A Term Preferred Stock, we incurred a loss on extinguishment of debt of $0.2 million, which has been recorded in Realized loss on other in our accompanying *Consolidated Statements of Operations* and which was primarily comprised of unamortized deferred issuance costs at the time of redemption.

The following tables summarize our Series A Term Preferred Stock, 6.75% Series B Cumulative Term Preferred Stock (our Series B Term Preferred Stock or Series B ), our 6.50% Series C Cumulative Term Preferred Stock (our Series C Term Preferred Stock or Series C ), and our Series D Term Preferred Stock outstanding as of September 30, 2016 and March 31, 2016:

**<u>As of September 30, 2016</u>**:

| **Class of Term Preferred Stock** | **Ticker Symbol** | **Date Issued** | **Mandatory Redemption Date[(A)]** | **Interest Rate** | **Shares Outstanding** | **Liquidation Preference per Share** | **Total Liquidation Preference** |
|---|---|---|---|---|---|---|---|
| Series B | GAINO | November 13, 2014 | December 31, 2021 | 6.75% | 1,656,000 | $ 25.00 | **$ 41,400** |
| Series C | GAINN | May 12, 2015 | May 31, 2022 | 6.50% | 1,610,000 | 25.00 | **40,250** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Series D | GAINM | September 26, 2016 | September 30, 2023 | 6.25% | 2,300,000 | | 25.00 | **57,500** |
| **Term preferred stock, gross[B]** | | | | | **5,566,000** | **$** | **25.00** | **$ 139,150** |
| Less: Discounts | | | | | | | | **(4,691)** |
| **Term preferred stock, net[C]** | | | | | | | | **$ 134,459** |

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**As of March 31, 2016:**

| Class of Term Preferred Stock | Ticker Symbol | Date Issued | Mandatory Redemption Date[(A)] | Interest Rate | Shares Outstanding | Liquidation Preference per Share | Total Liquidation Preference |
|---|---|---|---|---|---|---|---|
| Series A | GAINP | March 6, 2012 | February 28, 2017 | 7.125% | 1,600,000 | $ 25.00 | **$ 40,000** |
| Series B | GAINO | November 13, 2014 | December 31, 2021 | 6.750% | 1,656,000 | 25.00 | **41,400** |
| Series C | GAINN | May 12, 2015 | May 31, 2022 | 6.500% | 1,610,000 | 25.00 | **40,250** |
| **Term preferred stock, gross[(B)]** | | | | | **4,866,000** | **$ 25.00** | **$ 121,650** |
| Less: Discounts | | | | | | | **(3,185)** |
| **Term preferred stock, net[(C)]** | | | | | | | **$ 118,465** |

(A) The optional redemption dates for each of our series of mandatorily redeemable preferred stock are February 28, 2016 for our Series A Term Preferred Stock, (and we redeemed all outstanding shares of our Series A Term Preferred Stock on September 30, 2016), December 31, 2017 for our Series B Term Preferred Stock, May 31, 2018 for our Series C Term Preferred Stock, and September 30, 2018 for our Series D Term Preferred Stock.

(B) As of September 30, 2016 and March 31, 2016, the asset coverage on our senior securities that are stock calculated pursuant to Sections 18 and 61 of the 1940 Act was 235.5% and 221.4%, respectively.

(C) Reflected as a line item on our accompanying *Consolidated Statements of Assets and Liabilities* pursuant to the adoption of ASU 2015-03. Refer to Note 2 *Summary of Significant Accounting Policies* *Reclassifications* for additional information regarding the adoption of ASU 2015-03.

The following tables summarize dividends declared by our Board of Directors and paid by us on each of our series of mandatorily redeemable preferred stock during the six months ended September 30, 2016 and 2015:

**For the Six Months Ended September 30, 2016:**

| Declaration Date | Record Date | Payment Date | Dividend per Series A Term Preferred Share | Dividend per Series B Term Preferred Share | Dividend per Series C Term Preferred Share |
|---|---|---|---|---|---|
| April 12, 2016 | April 22, 2016 | May 2, 2016 | $ 0.1484375 | $ 0.140625 | $ 0.135417 |
| April 12, 2016 | May 19, 2016 | May 31, 2016 | 0.1484375 | 0.140625 | 0.135417 |
| April 12, 2016 | June 17, 2016 | June 30, 2016 | 0.1484375 | 0.140625 | 0.135417 |
| July 12, 2016 | July 22, 2016 | August 2, 2016 | 0.1484375 | 0.140625 | 0.135417 |

| | | | | | |
|---|---|---|---|---|---|
| July 12, 2016 | August 22, 2016 | August 31, 2016 | 0.1484375 | 0.140625 | 0.135417 |
| July 12, 2016 | September 21, 2016 | September 30, 2016 | 0.1484375 | 0.140625 | 0.135417 |
| | | **Total** | **$ 0.8906250** | **$ 0.843750** | **$ 0.812502** |

**For the Six Months Ended September 30, 2015**:

| **Declaration Date** | **Record Date** | **Payment Date** | **Dividend per Series A Term Preferred Share** | **Dividend per Series B Term Preferred Share** | **Dividend per Series C Term Preferred Share** |
|---|---|---|---|---|---|
| April 14, 2015 | April 24, 2015 | May 5, 2015 | $ 0.1484375 | $ 0.140625 | $ |
| April 14, 2015 | May 19, 2015 | May 29, 2015 | 0.1484375 | 0.140625 | |
| April 14, 2015 | June 19, 2015 | June 30, 2015 | 0.1484375 | 0.140625 | |
| May 14, 2015(A) | June 19, 2015 | June 30, 2015 | | | 0.221181 |
| July 14, 2015 | July 24, 2015 | August 4, 2015 | 0.1484375 | 0.140625 | 0.135417 |
| July 14, 2015 | August 20, 2015 | August 31, 2015 | 0.1484375 | 0.140625 | 0.135417 |
| July 14, 2015 | September 21, 2015 | September 30, 2015 | 0.1484375 | 0.140625 | 0.135417 |
| | | **Total** | **$ 0.8906250** | **$ 0.843750** | **$ 0.627432** |

(A) Represents a combined dividend for a prorated month of May 2015, based upon the issuance date of our Series C Term Preferred Stock, combined with a full month of June 2015.

The tax character of dividends paid by us to our preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

In accordance with ASC Topic 480, *Distinguishing Liabilities from Equity*, mandatorily redeemable financial instruments should be classified as liabilities in the balance sheet and we have recorded our mandatorily redeemable preferred stock at cost, which equals the liquidation preference, less discounts as of September 30, 2016 and March 31, 2016. The related dividend payments to preferred stockholders are treated as dividend expense on our accompanying *Consolidated Statements of Operations* on the ex-dividend date.

The following table summarizes the fair value of each of our series of mandatorily redeemable preferred stock based on the last reported closing sale price as of September 30, 2016 and March 31, 2016, each of which we consider to be a Level 1 input within the fair value hierarchy:

| | **Fair Value as of** | |
|---|---|---|
| | **September 30, 2016** | **March 31, 2016** |
| Series A Term Preferred Stock[(A)] | **$** | $ 40,944 |
| Series B Term Preferred Stock | **42,559** | 40,738 |
| Series C Term Preferred Stock | **41,844** | 38,849 |
| Series D Term Preferred Stock[(B)] | **58,466** | |
| **Total** | **$ 142,869** | $ 120,531 |

(A) We voluntarily redeemed our Series A Term Preferred Stock in full on September 30, 2016.
(B) Our Series D Term Preferred Stock was issued on September 26, 2016.

**NOTE 7. REGISTRATION STATEMENT AND COMMON EQUITY OFFERINGS**

*Registration Statement*

On June 16, 2015, we filed a registration statement on Form N-2 (File No. 333-204996) with the SEC and subsequently filed a Pre-Effective Amendment No. 1 to the registration statement on July 28, 2015, which the SEC declared effective on July 29, 2015. On June 8, 2016, we filed Post-Effective Amendment No. 1 to the registration statement, which the SEC declared effective on July 28, 2016. The registration statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common or preferred stock, including through concurrent, separate offerings of such securities. After the Series D Term Preferred Stock offering in September 2016, we currently have the ability to issue up to $242.5 million in securities under the registration statement.

**NOTE 8. NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER WEIGHTED AVERAGE COMMON SHARE**

The following table sets forth the computation of basic and diluted net (decrease) increase in net assets resulting from operations per weighted average common share for the three and six months ended September 30, 2016 and 2015:

| | **Three Months Ended September 30,** | | **Six Months Ended September 30,** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Numerator: net (decrease) increase in net assets resulting from operations | **$ (102)** | $ (110) | **$ 24,432** | $ 8,449 |
| Denominator: basic and diluted weighted average common shares | **30,270,958** | 30,270,958 | **30,270,958** | 30,265,548 |
| **Basic and diluted net (decrease) increase in net assets resulting from operations per weighted average common share** | **$** | $ | **$ 0.81** | $ 0.28 |

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**NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS**

To qualify for treatment as a RIC under Subchapter M of the Code, we must generally distribute to our stockholders, for each taxable year, at least 90% of our ordinary income plus the excess of our net short-term capital gains over net long-term capital losses ( Investment Company Taxable Income ). The amount to be paid out as distributions to our common stockholders is determined by our Board of Directors quarterly and is based on management s estimate of Investment Company Taxable Income. Based on that estimate, our Board of Directors declares three monthly distributions to common stockholders each quarter.

The federal income tax characteristics of all distributions (including preferred stock dividends) will be reported to stockholders on Internal Revenue Service Form 1099 after the end of each calendar year.

We paid the following monthly distributions to our common stockholders for the six months ended September 30, 2016 and 2015:

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Common Share |
|---|---|---|---|---|
| **2017** | April 12, 2016 | April 22, 2016 | May 2, 2016 | **$ 0.0625** |
| | April 12, 2016 | May 19, 2016 | May 31, 2016 | **0.0625** |
| | April 12, 2016 | June 17, 2016 | June 30, 2016 | **0.0625** |
| | July 12, 2016 | July 22, 2016 | August 2, 2016 | **0.0625** |
| | July 12, 2016 | August 22, 2016 | August 31, 2016 | **0.0625** |
| | July 12, 2016 | September 21, 2016 | September 30, 2016 | **0.0625** |
| | | | **Six months ended September 30, 2016:** | **$ 0.3750** |

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Common Share |
|---|---|---|---|---|
| **2016** | April 14, 2015 | April 24, 2015 | May 5, 2015 | $ 0.0625 |
| | April 14, 2015 | May 19, 2015 | May 29, 2015 | 0.0625 |
| | April 14, 2015 | June 19, 2015 | June 30, 2015 | 0.0625 |
| | July 14, 2015 | July 24, 2015 | August 4, 2015 | 0.0625 |
| | July 14, 2015 | August 20, 2015 | August 31, 2015 | 0.0625 |
| | July 14, 2015 | September 21, 2015 | September 30, 2015 | 0.0625 |
| | | | **Six months ended September 30, 2015:** | **$ 0.3750** |

Aggregate distributions to our common stockholders declared quarterly and paid monthly were $11.4 million for both the six months ended September 30, 2016 and 2015 and were declared based on estimates of Investment Company Taxable Income for each respective fiscal year. We determine the tax characterization of distributions to our common stockholders as of the end of our fiscal year, based upon our taxable income for the full year and distributions paid

during the full year. Therefore, a determination of tax characterization made on a quarterly basis may not be representative of the actual tax characterization of distributions for the full year. If we determined the tax characterization of our distributions as of September 30, 2016, 100% would be from ordinary income and 0% would be a return of capital. For the six months ended September 30, 2016, we recorded $0.8 million of net estimated adjustments for permanent book-tax differences to reflect tax character which decreased Capital in excess of par value by $0.8 million, increased Accumulated net realized gain (loss) by $0.1 million and increased Net investment income in excess of distributions by $0.7 million on our accompanying *Consolidated Statements of Assets and Liabilities*. For the fiscal year ended March 31, 2016, Investment Company Taxable Income exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $6.9 million of the first distributions paid to common stockholders in fiscal year 2017, as having been paid in the prior year.

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

*Legal Proceedings*

We are party to certain legal proceedings incidental to the normal course of our business. We are required to establish reserves for litigation matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves. Based on current knowledge, we do not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our financial condition, results of operation or cash flows. Additionally, based on our current knowledge, we do not believe such loss contingencies are both probable and estimable and therefore, as of September 30, 2016 and March 31, 2016, we had no established reserves for such loss contingencies.

*Escrow Holdbacks*

From time to time, we will enter into arrangements relating to exits of certain investments whereby specific amounts of the proceeds are held in escrow to be used to satisfy potential obligations, as stipulated in the sales agreements. We record escrow amounts in Restricted cash and cash equivalents, if received in cash but subject to potential obligations, or as escrow receivables in Other assets, net, if not yet received in cash, on our accompanying *Consolidated Statements of Assets and Liabilities*. We establish a reserve against the escrow amounts if we determine that it is probable and estimable that a portion of the escrow amounts will not ultimately be released or received at the end of the escrow period. Reserves against escrow amounts were $0.1 million as of September 30, 2016. There were no aggregate reserves recorded against escrow amounts as of March 31, 2016.

*Financial Commitments and Obligations*

We have lines of credit and other uncalled capital commitments to certain of our portfolio companies that have not been fully drawn. Since these lines of credit and other uncalled capital commitments have expiration dates and we expect many will never be fully drawn, the total line of credit and other uncalled capital commitment amounts do not necessarily represent future cash requirements. In February 2015, we executed a capital call commitment with Tread and its senior credit facility lender, which expires in February 2018. Under the terms of the agreement, we may be required to fund additional capital up to $10.0 million in Tread, with such commitment limited at all times to the actual amount outstanding under Tread s senior credit facility. The actual amount outstanding under Tread s senior credit facility as of September 30, 2016 and March 31, 2016 was $2.8 million and $5.1 million, respectively. We estimate the fair value of the combined unused line of credit and other uncalled capital commitments as of September 30, 2016 and March 31, 2016 to be immaterial.

In addition to the lines of credit and other uncalled capital commitments to our portfolio companies, we have also extended certain guaranties on behalf of one of our portfolio companies. During the six months ended September 30, 2016 and 2015, we have not been required to make any payments on any of the guaranties, and we consider the credit risks to be remote and the fair value of the guaranties as of September 30, 2016 and March 31, 2016 to be immaterial.

As of September 30, 2016, the following guaranties were outstanding:

In February 2010, we executed a guaranty of a wholesale financing facility agreement (the Floor Plan Facility ) between Agricredit Acceptance, LLC ( Agricredit ) and Country Club Enterprises, LLC ( 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 dates and delivery dates of golf carts to customers. The guaranty was renewed in February of each subsequent year through February 2016 and expires in February 2017, unless it is renewed again by us, CCE and Agricredit.

In April 2010, we executed a guaranty of vendor recourse for 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 $0.1 million on transactions with long-time customers who lack the financial history to qualify for third-party financing. These individual transactions have terms to maturity that expire in October 2016.

The following table summarizes the principal balances of unused line of credit and other uncalled capital commitments and guaranties as of September 30, 2016 and March 31, 2016, which are not reflected as liabilities in the

accompanying *Consolidated Statements of Assets and Liabilities:*

| | September 30, 2016 | March 31, 2016 |
|---|---|---|
| Unused line of credit and other uncalled capital commitments | **$ 6,613** | $ 10,564 |
| Guaranties | **2,071** | 2,279 |
| Total | **$ 8,684** | $ 12,843 |

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**NOTE 11. FINANCIAL HIGHLIGHTS**

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Per Common Share Data:** | | | | |
| Net asset value at beginning of period[(A)] | **$ 9.84** | $ 9.24 | **$ 9.22** | $ 9.18 |
| *Income from investment operations*[(B)] | | | | |
| Net investment income | **0.17** | 0.20 | **0.39** | 0.37 |
| Net realized gain (loss) on sale of investments and other | **(0.01)** | (0.09) | **0.61** | (0.08) |
| Net unrealized (depreciation) appreciation of investments and other | **(0.16)** | (0.11) | **(0.19)** | |
| Total from investment operations | | | **0.81** | 0.29 |
| *Effect of equity capital activity*[(B)] | | | | |
| Cash distributions to common stockholders[(C)] | **(0.19)** | (0.19) | **(0.38)** | (0.38) |
| Shelf registration offering costs | | | | (0.01) |
| Net dilutive effect of equity offering[(D)] | | | | (0.03) |
| Total from equity capital activity | **(0.19)** | (0.19) | **(0.38)** | (0.42) |
| Net asset value at end of period[(A)] | **$ 9.65** | $ 9.05 | **$ 9.65** | $ 9.05 |
| Per common share market value at beginning of period | **$ 7.16** | $ 7.95 | **$ 7.02** | 7.40 |
| Per common share market value at end of period | **8.89** | 7.04 | **8.89** | 7.04 |
| Total return[(E)] | **26.89%** | (9.20)% | **32.92%** | (0.06)% |
| Common stock outstanding at end of period[(A)] | **30,270,958** | 30,270,958 | **30,270,958** | 30,270,958 |
| **Statement of Assets and Liabilities Data:** | | | | |
| Net assets at end of period | **$ 292,102** | $ 273,968 | **$ 292,102** | $ 273,968 |
| Average net assets[(F)] | **296,105** | 227,021 | **290,825** | 277,884 |
| **Senior Securities Data:** | | | | |
| Total borrowings, at cost | **$ 68,596** | $ 108,596 | **$ 68,596** | $ 108,596 |
| Mandatorily redeemable preferred stock, at liquidation preference | **139,150** | 121,650 | **139,150** | 121,650 |
| **Ratios/Supplemental Data:** | | | | |
| Ratio of net expenses to average net assets annualized[(G)] | **8.96%** | 11.14% | **9.77%** | 10.98% |
| Ratio of net investment income to average net assets annualized[(H)] | **6.91** | 8.70 | **8.20** | 8.05 |

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

(B) Based on weighted average basic common share data for the corresponding period.

(C) The tax character of distributions is determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.

(D) During the six months ended September 30, 2015, the dilution is the result of issuing common shares in April 2015 at a price below the then current NAV per share.

(E) Total return equals the change in the market value of our common stock from the beginning of the period, taking into account distributions reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, please refer to Note 9 *Distributions to Common Stockholders*.

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

(G) Ratio of net expenses to average net assets is computed using total expenses, net of any voluntary, unconditional, and irrevocable credits of fees from the Adviser. Had we not received any voluntary, unconditional, and irrevocable credits of fees due to the Adviser, the ratio of expenses to average net assets annualized would have been 12.79% and 14.84% for the three months ended September 30, 2016 and 2015, respectively, and 13.46% and 14.56% for the six months ended September 30, 2016 and 2015, respectively.

(H) Had we not received any voluntary, unconditional, and irrevocable credits of fees from the Adviser, the ratio of net investment income to average net assets annualized would have been 3.07% and 4.99% for the three months ended September 30, 2016 and 2015, respectively, and 4.52% and 4.47% for the six months ended September 30, 2016 and 2015, respectively.

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**NOTE 12. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES**

In accordance with the SEC s Regulation S-X, we do not consolidate portfolio company investments. Further, in accordance with ASC 946, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries.

We have one unconsolidated subsidiary, Galaxy Tool Holding Corporation ( Galaxy ), which met at least one of the significance conditions under Rule 1-02(w) of the SEC s Regulation S-X as of or during at least one of the six month periods ended September 30, 2016 and 2015. Accordingly, summarized, comparative financial information, pursuant to Rule 10-01(b) is presented below for Galaxy, which is a designer and manufacturer of precision tools for the business jet industry and of injection and blow molds for the plastics industry.

| | For the Six Months Ended September 30, | |
|---|---|---|
| **Income Statement** | **2016** | **2015** |
| Net sales | **$ 12,480** | $ 13,080 |
| Gross profit | **2,743** | 20 |
| Net profit (loss) | **764** | (2,980) |

**NOTE 13. SUBSEQUENT EVENTS**

*Significant Investment Activity*

In October 2016, we restructured our investment in D.P.M.S., Inc. As a result of the restructure, we exchanged existing debt with a cost basis of $16.5 million and a fair value of $6.4 million as of September 30, 2016 for a new $8.8 million secured first lien term loan, relinquished our preferred equity with a cost basis of $2.5 million and fair value of $0, and relinquished a portion of our common equity with a total cost basis of $3 and a fair value of $0, each as of September 30, 2016. The new term loan has a current interest rate of 10.0% and matures in October 2021. The transaction resulted in a realized loss of $10.2 million.

*Distributions*

In October 2016, our Board of Directors declared the following monthly distributions to common stockholders and dividends to holders of our Series B Term Preferred Stock, Series C Term Preferred Stock and Series D Term Preferred Stock:

| Record Date | Payment Date | Distribution per Common Share | Dividend per Series B Term Preferred Share | Dividend per Series C Term Preferred Share | Dividend per Series D Term Preferred Share |
|---|---|---|---|---|---|
| October 21, 2016 | October 31, 2016 | $ 0.0625 | $ 0.140625 | $ 0.135417 | $ 0.15190972(A) |
| November 17, 2016 | November 30, 2016 | 0.0625 | 0.140625 | 0.135417 | 0.13020833 |
| December 20, 2016 | December 30, 2016 | 0.0625 | 0.140625 | 0.135417 | 0.13020833 |

| | | | | |
|---|---|---|---|---|
| **Total for the Quarter:** | **$ 0.1875** | **$ 0.421875** | **$ 0.406251** | **$ 0.41232638** |

(A) Represents a combined dividend for the prorated period from and including the issuance date, September 26, 2016, to and including September 30, 2016 and the full month of October 2016.

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## ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**All statements contained herein, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, our future operating results, our business prospects and the prospects of our portfolio companies, actual and potential conflicts of interest with Gladstone Management Corporation (the Adviser ) and its affiliates, the use of borrowed money to finance our investments, the adequacy of our financing sources and working capital, and our ability to co-invest, among other factors. In some cases, you can identify forward-looking statements by terminology such as estimate, may, might, believe will, provided, anticipate, future, could, growth, plan, project, intend, expect, should, w potential, likely or the negative or variations of such terms or comparable terminology. These forward-looking 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. Such factors include, but are not limited to: (1) the recurrence of adverse events in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker or David Dullum; (4) changes in our investment objectives and strategy; (5) availability, terms (including the possibility of interest rate volatility) and deployment of capital; (6) changes in our industry, interest rates, exchange rates, regulation or the general economy; (7) the degree and nature of our competition; (8) our ability to maintain our qualification as a regulated investment company and as a business development company; and (9) those factors described in Item 1A. *Risk Factors* herein and the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2016, filed with the U.S. Securities and Exchange Commission ( SEC ) on May 17, 2016. We caution readers not to place undue reliance on any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements and future results could differ materially from historical performance. We have based forward-looking statements on information available to us on the date of this Quarterly Report on Form 10-Q. Except as required by the federal securities laws, 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 Quarterly Report on Form 10-Q. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the SEC, including subsequent annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.**

*In this Quarterly Report on Form 10-Q, the Company, we, us, and our refer to Gladstone Investment Corporation and its wholly-owned subsidiaries unless the context otherwise indicates. Dollar amounts, except per share amounts, are in thousands unless otherwise indicated.*

**The following analysis of our financial condition and results of operations should be read in conjunction with our accompanying *Consolidated Financial Statements* and the notes thereto contained elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016, filed with the SEC on May 17, 2016. Historical financial condition and results of operations and percentage relationships among any amounts in the financial statements are not necessarily indicative of financial condition or results of operations for any future periods.**

## OVERVIEW

**General**

We were incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005. On June 22, 2005, we completed our initial public offering and commenced operations. We operate as an externally managed, 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 ). For federal income tax purposes, we have elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ). To continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment, we must meet certain requirements, including certain minimum distribution requirements.

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the U.S. Our investment objectives are to: (1) achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to our stockholders that grow over time; and (2) provide our stockholders with long-term capital

appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow in value over time to permit us to sell our equity investments for capital gains. To achieve our objectives, our investment strategy is to invest in several categories of debt and equity securities, with individual investments generally totaling up to $30 million, depending upon our total assets or available capital at the time of investment. We seek to avoid investments in high-risk, early stage enterprises. We expect that our investment portfolio over time will consist of approximately 75% in debt securities and 25% in equity securities, at cost. As of September 30, 2016, our investment portfolio was made up of 72.0% in debt securities and 28.0% in equity securities, at cost.

We focus on investing in small and medium-sized private businesses in the U.S. that meet certain criteria, including, but not limited to, the following: the sustainability of the business free cash flow and its ability to grow it over time, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, reasonable capitalization of the borrower, including an ample equity contribution or cushion based on prevailing enterprise valuation multiples, and the potential to realize appreciation and gain liquidity in our equity position, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the borrower, a public offering of the borrower s stock or by exercising our right to require the borrower to repurchase our warrants, though there can be no assurance that we will always have these rights. We lend to borrowers that need funds for growth capital or to finance acquisitions or recapitalize or refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises.

We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity.

Additionally, in July 2012, the SEC granted us an exemptive order (the Co-Investment Order ) that expanded our ability to co-invest with certain of our affiliates under certain circumstances and any future business development company or closed-end management investment company that is advised (or sub-advised if it controls the fund) by our external investment adviser, or any combination of the foregoing, subject to the conditions in the SEC s order. We have opportunistically made several co-investments with our affiliate Gladstone Capital Corporation pursuant to the Co-Investment Order. We believe the Co-Investment Order has enhanced and will continue to enhance our ability to further our investment objectives and strategies. If we are participating in an investment with one or more co-investors, whether or not an affiliate of ours, our investment is likely to be smaller than if we were investing alone.

We are externally managed by our affiliated investment adviser, Gladstone Management Corporation, an SEC registered investment adviser, pursuant to an investment advisory and management agreement (the Advisory Agreement ). The Adviser manages our investment activities. We have also entered into an administration agreement (the Administration Agreement ) with Gladstone Administration, LLC (the Administrator ), an affiliate of ours and the Adviser, whereby we pay separately for administrative services. Each of the Adviser and Administrator are privately-held companies that are indirectly owned and controlled by David Gladstone, our chairman and chief executive officer.

Additionally, Gladstone Securities, LLC ( Gladstone Securities ), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation, which is 100% indirectly owned and controlled by Mr. Gladstone, our chairman and chief executive officer, has provided other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which Gladstone Securities receives a fee. Any such fees paid by portfolio companies to Gladstone Securities do not impact the fees we pay to the Adviser or the voluntary, unconditional, and irrevocable credits against the base management fee. For additional information refer to Note 4 *Related Party Transactions* of the notes to our accompanying *Consolidated Financial Statements*.

Our shares of common stock, 6.75% Series B Cumulative Term Preferred Stock ( Series B Term Preferred Stock ), 6.50% Series C Cumulative Term Preferred Stock ( Series C Term Preferred Stock ), and 6.25% Series D Cumulative Term Preferred Stock ( Series D Term Preferred Stock ) are traded on the NASDAQ Global Select Market ( NASDAQ ) under the trading symbols GAIN, GAINO, GAINN, and GAINM, respectively.

**Business**

***Portfolio Activity***

While the business environment remains competitive, we continue to see new investment opportunities consistent with our investment strategy of providing a combination of debt and equity in support of management and sponsor-led buyouts of small and medium-sized companies in the U.S. During the six months ended September 30, 2016, we invested a total of $25.5 million in one new portfolio company and exited one existing portfolio company with a fair value prior to sale of $44.9 million resulting in no net change in the number of portfolio companies, which remained at 36 as of September 30, 2016. From our initial public offering in June 2005 through September 30, 2016, we have made investments in 44 companies, excluding investments in syndicated loans, for a total of approximately $863 million before giving effect to principal repayments and divestitures.

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The majority of the debt securities in our portfolio have a success fee component, which enhances the yield on our debt investments. Unlike paid-in-kind ( PIK ) income, we generally do not recognize success fees as income until they are received in cash. Due to the contingent nature of success fees, there are no guarantees that we will be able to collect any or all of these success fees or know the timing of such collections. As a result, as of September 30, 2016, we had unrecognized success fees of $31.2 million, or $1.03 per common share. Consistent with accounting principles generally accepted in the U.S. ( GAAP ), we have not recognized success fee receivables and related income in our *Consolidated Financial Statements* until earned.

Since inception, we have closed eight buyout liquidity events, which, in the aggregate, have generated $88.4 million in net realized gains and $18.9 million in other income upon exit, for a total increase to our net assets of $107.3 million. We believe each of these transactions was an equity-oriented investment success and exemplifies our investment strategy of striving to achieve returns through current income on the debt portion of our investments and capital gains from the equity portion. The eight liquidity events have offset our cumulative realized losses since inception, which were primarily incurred during the recession in connection with the sale of performing syndicated loans at a realized loss to pay off a former lender. These successful exits, in part, enabled us to increase the monthly distribution by 56.3% since March 2011, and allowed us to declare and pay a $0.03 per common share special distribution in fiscal year 2012, a $0.05 per common share special distribution in November 2013, and a $0.05 per common share special distribution in December 2014.

***Capital Raising Efforts***

We have been able to meet our capital needs through extensions of and increases to our Credit Facility and by accessing the capital markets in the form of public offerings of common and preferred stock. We have successfully extended our Credit Facility s revolving period multiple times, most recently to June 2017, and increased the commitment from $60.0 million to $185.0 million (with a potential total commitment of $250.0 million through additional commitments of new or existing lenders). Additionally, we issued approximately 3.8 million shares of common stock for gross proceeds of $28.1 million in March 2015, inclusive of the April 2015 overallotment, 1.6 million shares of our Series C Term Preferred Stock for gross proceeds of $40.3 million in May 2015, and 2.3 million shares of our Series D Term Preferred Stock for gross proceeds of $57.5 million in September 2016. Refer to *Liquidity and Capital Resources Equity Common Stock* and *Liquidity and Capital Resources Equity Term Preferred Stock* for further discussion of our common stock and mandatorily redeemable preferred stock and *Liquidity and Capital Resources Revolving Credit Facility* for further discussion of our Credit Facility.

Although we were able to access the capital markets historically, we believe market conditions continue to affect the trading price of our common stock and thus our ability to finance new investments through the issuance of common equity. On November 1, 2016, the closing market price of our common stock was $8.53 per share, which represented an 11.6% discount to our net asset value ( NAV ) of $9.65 per share as of September 30, 2016. When our common stock trades below NAV, our ability to issue additional equity is constrained by provisions of the 1940 Act, which generally prohibit the issuance and sale of our common stock at an issuance price below the then current NAV per share without stockholder approval, other than through sales to our then-existing stockholders pursuant to a rights offering.

At our 2016 Annual Meeting of Stockholders held on August 4, 2016, our stockholders approved a proposal authorizing us to issue and sell shares of our common stock at a price below our then current NAV per share, subject to certain limitations, including that the number of shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale, provided that our board of directors (our Board of Directors ) makes certain determinations prior to any such sale. This August 2016 stockholder authorization is in effect for one year from the date of stockholder approval. We sought and obtained stockholder

approval concerning similar proposals at each Annual Meeting of Stockholders since 2008, and with our Board of Directors subsequent approval, we issued shares of our common stock two times at a price below the then current NAV per share, once in March and April 2015 and once in October and November 2012. The resulting proceeds, in part, have allowed us to grow the portfolio by making new investments, generate additional income through these new investments, provide us additional equity capital to help ensure continued compliance with regulatory tests and increase our debt capital while still complying with our applicable debt-to-equity ratios. Refer to *Liquidity and Capital Resources Equity Common Stock* for further discussion of our common stock.

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***Regulatory Compliance***

Our ability to seek external debt financing, to the extent that it is available under current market conditions, is further subject to the asset coverage limitations of the 1940 Act, which require us to have an asset coverage ratio (as defined in Sections 18 and 61 of the 1940 Act), of at least 200.0% on each of our senior securities representing indebtedness and our senior securities that are stock (such as our three series of term preferred stock).

**Investment Highlights**

During the six months ended September 30, 2016, we received $45.8 million in proceeds from repayments and sales, invested $25.5 million in one new portfolio company, and extended $5.7 million of follow-on investments to existing portfolio companies through revolver draws, term loans, and common equity. From our initial public offering in June 2005 through September 30, 2016, we have made investments in 44 companies, excluding investments in syndicated loans, for a total of approximately $863 million before giving effect to principal repayments and divestitures.

***Investment Activity***

During the six months ended September 30, 2016, the following significant transactions occurred:

In April 2016, we sold our investment in Acme Cryogenics, Inc. ( Acme ), which resulted in dividend income of $2.8 million and a net realized gain of $18.8 million. In connection with the sale, we received net cash proceeds of $44.6 million, including the repayment of our debt investment of $14.5 million at par and net receivables of $0.6 million, which were recorded within Other assets, net.

In May 2016, we invested $25.5 million in The Mountain Corporation ( The Mountain ) through a combination of secured second lien debt and preferred equity. The Mountain, headquartered in Keene, New Hampshire, is a designer and manufacturer of premium quality, bold artwear apparel serving a diverse global customer base.

The following significant investment activity occurred subsequent to September 30, 2016. Also refer to Note 13 *Subsequent Events* in our accompanying *Consolidated Financial Statements* included elsewhere in this Quarterly Report on Form 10-Q.

In October 2016, we restructured our investment in D.P.M.S., Inc. As a result of the restructure, we exchanged existing debt with a cost basis of $16.5 million and a fair value of $6.4 million as of September 30, 2016 for a new $8.8 million secured first lien term loan, relinquished our preferred equity with a cost basis of $2.5 million and fair value of $0, and relinquished a portion of our common equity with a total cost basis of $3 and a fair value of $0, each as of September 30, 2016. The new term loan has a current interest rate of 10.0% and matures in October 2021. The transaction resulted in a realized loss of $10.2 million.

**Recent Developments**

***Registration Statement***

On June 16, 2015, we filed a registration statement on Form N-2 (File No. 333-204996) with the SEC and subsequently filed a Pre-Effective Amendment No. 1 to the registration statement on July 28, 2015, which the SEC declared effective on July 29, 2015. On June 8, 2016, we filed Post-Effective Amendment No. 1 to the registration statement, which the SEC declared effective on July 28, 2016. The registration statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common or preferred stock, including through concurrent, separate offerings of such securities. After the Series D Term Preferred Stock offering in September 2016, we currently have the ability to issue up to $242.5 million in securities under the registration statement.

***Term Preferred Stock Offering and Redemption***

In September 2016, we completed a public offering of 2,300,000 shares of our Series D Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $57.5 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were approximately $55.4 million. Refer to *Liquidity and Capital Resources Equity Term Preferred Stock* for further discussion of our recently issued mandatorily redeemable preferred stock.

In September 2016, we used a portion of the proceeds from the issuance of our Series D Term Preferred Stock to voluntarily redeem all 1.6 million outstanding shares of our 7.125% Series A Cumulative Term Preferred Stock (our Series A Term Preferred Stock or Series A ), which had a liquidation preference of $25.00 per share and a mandatory redemption date of February 28. 2017. In connection with the voluntary redemption of our Series A Term Preferred Stock, we incurred a loss on extinguishment of debt of $0.2 million, which has been recorded in Realized loss on other in our accompanying *Consolidated Statements of Operations* and which was primarily comprised of unamortized deferred issuance costs at the time of redemption. Refer to *Liquidity and Capital Resources Equity Term Preferred Stock* for further discussion of our recently redeemed mandatorily redeemable preferred stock.

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***Distributions and Dividends***

In October 2016, our Board of Directors declared the following monthly distributions to common stockholders and dividends to holders of our Series B Term Preferred Stock, Series C Term Preferred Stock, and Series D Term Preferred Stock:

| Record Date | Payment Date | Distribution per Common Share | Dividend per Series B Term Preferred Share | Dividend per Series C Term Preferred Share | Dividend per Series D Term Preferred Share |
|---|---|---|---|---|---|
| October 21, 2016 | October 31, 2016 | $0.0625 | $0.140625 | $0.135417 | $0.15190972(A) |
| November 17, 2016 | November 30, 2016 | 0.0625 | 0.140625 | 0.135417 | 0.13020833 |
| December 20, 2016 | December 30, 2016 | 0.0625 | 0.140625 | 0.135417 | 0.13020833 |
| | **Total for the Quarter:** | **$0.1875** | **$0.421875** | **$0.406251** | **$0.41232638** |

(A) Represents a combined dividend for the prorated period from and including the issuance date, September 26, 2016, to and including September 30, 2016 and the full month of October 2016.

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**RESULTS OF OPERATIONS**

***Comparison of the Three Months Ended September 30, 2016 to the Three Months Ended September 30, 2015***

| | For the Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | **2016** | **2015** | **$ Change** | **% Change** |
| **INVESTMENT INCOME** | | | | |
| Interest income | **$ 11,730** | $ 11,945 | $ (215) | (1.8)% |
| Other income | **14** | 1,795 | (1,781) | (99.2) |
| Total investment income | **11,744** | 13,740 | (1,996) | (14.5) |
| **EXPENSES** | | | | |
| Base management fee | **2,489** | 2,510 | (21) | (0.8) |
| Loan servicing fee | **1,722** | 1,707 | 15 | 0.9 |
| Incentive fee | **549** | 1,505 | (956) | (63.5) |
| Administration fee | **275** | 270 | 5 | 1.9 |
| Interest and dividend expense | **3,068** | 3,146 | (78) | (2.5) |
| Amortization of deferred financing costs and discounts | **481** | 483 | (2) | (0.4) |
| Other | **884** | 664 | 220 | 33.1 |
| Expenses before credits from Adviser | **9,468** | 10,285 | (817) | (7.9) |
| Credits to fees from Adviser | **(2,836)** | (2,568) | (268) | 10.4 |
| Total expenses, net of credits to fees | **6,632** | 7,717 | (1,085) | (14.1) |
| **NET INVESTMENT INCOME** | **5,112** | 6,023 | (911) | (15.1) |
| **REALIZED AND UNREALIZED GAIN (LOSS)** | | | | |
| Net realized loss on investments | **(11)** | (2,740) | 2,729 | (99.6) |
| Net realized loss on other | **(182)** | | (182) | NM |
| Net unrealized depreciation of investments | **(5,021)** | (3,393) | (1,628) | 48.0 |
| Net realized and unrealized loss | **(5,214)** | (6,133) | 919 | (15.0) |
| **NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS** | **$ (102)** | $ (110) | $ 8 | (7.3) |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | | |
| Net investment income | **$ 0.17** | $ 0.20 | $ (0.03) | (15.0)% |
| Net decrease in net assets resulting from operations | **$** | $ | $ | NM |

*NM = Not Meaningful*

**Investment Income**

Total investment income decreased by 14.5% for the three months ended September 30, 2016, as compared to the prior year period. This decrease was primarily due to a decrease in other income.

Interest income from our investments in debt securities decreased 1.8% for the three months ended September 30, 2016, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during both the three months ended September 30, 2016 and the three months ended September 30, 2015, was $375.9 million.

At September 30, 2016 and 2015, our loans to one portfolio company, Tread Corporation ( Tread ), were on non-accrual status, with an aggregate debt cost basis of $3.2 million and $11.7 million, respectively. The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as other income, was 12.5% and 12.7% for the three months ended September 30, 2016 and 2015, respectively. The weighted average yield may vary from period to period, based on the current stated interest rate on interest-bearing investments.

Other income for the three months ended September 30, 2016 decreased 99.2% from the prior year period. During the three months ended September 30, 2016, other income primarily consisted of dividend income of $12. For the three months ended September 30, 2015, other income primarily consisted of $1.8 million of dividend income.

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The following table lists the investment income for our five largest portfolio company investments based on fair value during the respective periods:

| | As of September 30, 2016 | | Three months ended September 30, 2016 | |
|---|---|---|---|---|
| **Portfolio Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| Counsel Press, Inc. | $ 31,937 | 6.6% | $ 786 | 6.7% |
| Cambridge Sound Management, Inc. | 26,061 | 5.4 | 520 | 4.4 |
| The Mountain Corporation | 23,628 | 4.9 | 642 | 5.5 |
| Old World Christmas, Inc. | 22,143 | 4.6 | 534 | 4.5 |
| GI Plastek Inc. | 21,291 | 4.4 | 508 | 4.3 |
| **Subtotal five largest investments** | **125,060** | **25.9** | **2,990** | **25.4** |
| Other portfolio companies | 360,912 | 74.1 | 8,754 | 74.6 |
| **Total investment portfolio** | **$ 485,972** | **100.0%** | **$ 11,744** | **100.0%** |

| | As of September 30, 2015 | | Three months ended September 30, 2015 | |
|---|---|---|---|---|
| **Portfolio Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| SOG Specialty Knives & Tools, LLC | $ 31,855 | 6.5% | $ 670 | 4.9% |
| Acme Cryogenics, Inc.[(A)] | 29,331 | 6.0 | 426 | 3.1 |
| Cambridge Sound Management, Inc. | 28,218 | 5.8 | 498 | 3.6 |
| Counsel Press, Inc. | 27,707 | 5.6 | 803 | 5.8 |
| Funko, LLC.[(A)] | 26,814 | 5.5 | 481 | 3.5 |
| **Subtotal five largest investments** | **143,925** | **29.4** | **2,878** | **20.9** |
| Other portfolio companies | 346,710 | 70.6 | 10,862 | 79.1 |
| **Total investment portfolio** | **$ 490,635** | **100.0%** | **$ 13,740** | **100.0%** |

(A) Investment exited subsequent to September 30, 2015.

**Expenses**

Total expenses, net of any voluntary, unconditional, and irrevocable credits from the Adviser, decreased by 14.1% during the three months ended September 30, 2016, as compared to the prior year period, primarily as a result of a decrease in the incentive fee and an increase in voluntary, unconditional, and irrevocable credits from the Adviser, partially offset by an increase in other expenses.

The incentive fee decreased for the three months ended September 30, 2016, as compared to the prior year period, as net investment income decreased and net assets, which drives the hurdle rate, increased over the respective periods.

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The base management fee, loan servicing fee, incentive fee, and their related voluntary, unconditional, and irrevocable credits are computed quarterly, as described under *Transactions with the Adviser* in Note 4 *Related Party Transactions* of the notes to our accompanying *Consolidated Financial Statements* and are summarized in the following table:

| | Three Months Ended September 30, | |
|---|---|---|
| | **2016** | **2015** |
| Average total assets subject to base management fee[(A)] | **$ 497,800** | $ 502,000 |
| Multiplied by prorated annual base management fee of 2.0% | **0.5%** | 0.5% |
| **Base management fee[(B)]** | **2,489** | 2,510 |
| Credits to fees from Adviser - other[(B)] | **(1,114)** | (861) |
| **Net base management fee** | **$ 1,375** | $ 1,649 |
| **Loan servicing fee[(B)]** | **$ 1,722** | $ 1,707 |
| Credits to base management fee - loan servicing fee[(B)] | **(1,722)** | (1,707) |
| **Net loan servicing fee** | **$** | $ |
| **Incentive fee[(B)]** | **$ 549** | $ 1,505 |
| Credits to fees from Adviser - other[(B)] | | |
| **Net incentive fee** | **$ 549** | $ 1,505 |

(A) Average total assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.

(B) Reflected as a line item on our accompanying *Consolidated Statements of Operations*.

Other expenses increased 33.1% for the three months ended September 30, 2016, as compared to the prior year period, primarily as a result of the recognition of excise tax expense during the three months ended September 30, 2016, which was partially offset by lower professional fees, including legal and diligence fees, as well as lower bad debt expense.

**Realized and Unrealized Gain (Loss)**

*Net Realized Loss on Investments*

During the three months ended September 30, 2015, we recorded net realized losses of $2.7 million related to the restructuring of NDLI, Inc. ( NDLI ). There was no significant realized gain (loss) activity during the three months

ended September 30, 2016.

*Net Realized Loss on Other*

During the three months ended September 30, 2016, we recorded a net realized loss on other of $0.2 million related to the redemption of our Series A Term Preferred Stock in September 2016. There were no realized gains or losses on other during the three months ended September 30, 2015.

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*Net Unrealized Appreciation (Depreciation) of Investments*

During the three months ended September 30, 2016, we recorded net unrealized depreciation of investments of $5.0 million. The realized gain (loss) and unrealized appreciation (depreciation) across our investments for the three months ended September 30, 2016, were as follows:

| | Three Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized Gain (Loss)** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized (Appreciation) Depreciation** | **Net Gain (Loss)** |
| Mitchell Rubber Products, Inc. | $ | $ 4,440 | $ | $ 4,440 |
| Old World Christmas, Inc. | | 3,824 | | 3,824 |
| Brunswick Bowling Products, Inc. | | 2,341 | | 2,341 |
| Counsel Press, Inc. | | 1,739 | | 1,739 |
| Galaxy Tool Holding Corporation | | 1,138 | | 1,138 |
| Logo Sportswear, Inc. | | 1,005 | | 1,005 |
| B+T Group Acquisition, Inc. | | 770 | | 770 |
| Behrens Manufacturing, LLC | | 523 | | 523 |
| Tread Corporation | | 372 | | 372 |
| GI Plastek, Inc. | | 372 | | 372 |
| Channel Technologies Group, LLC | | 366 | | 366 |
| Edge Adhesives Holdings, Inc. | | 182 | | 182 |
| Meridian Rack & Pinion, Inc. | | 137 | | 137 |
| Alloy Die Casting Co. | | (568) | | (568) |
| Head Country, Inc. | | (843) | | (843) |
| B-Dry, LLC | | (876) | | (876) |
| Schylling, Inc. | | (967) | | (967) |
| Country Club Enterprises, LLC | | (979) | | (979) |
| Drew Foam Companies, Inc. | | (1,035) | | (1,035) |
| D.P.M.S., Inc. | | (1,074) | | (1,074) |
| Mathey Investments, Inc. | | (1,352) | | (1,352) |
| SOG Specialty Knives & Tools, LLC | | (1,497) | | (1,497) |
| Jackrabbit, Inc. | | (1,562) | | (1,562) |
| Precision Southeast, Inc. | | (1,682) | | (1,682) |
| Cambridge Sound Management, Inc. | | (1,745) | | (1,745) |
| The Mountain Corporation | | (1,872) | | (1,872) |
| Frontier Packaging, Inc. | | (1,987) | | (1,987) |
| Nth Degree, Inc. | | (2,090) | | (2,090) |
| SBS Industries, LLC | | (2,342) | | (2,342) |
| Other, net (<$250 Net) | (11) | 241 | | 230 |
| **Total** | **$ (11)** | **$ (5,021)** | **$** | **$ (5,032)** |

The primary driver of net unrealized depreciation of $5.0 million for the three months ended September 30, 2016, was a decrease in performance of several of our portfolio companies, which was partially offset by unrealized appreciation resulting from an increase in performance of several of our portfolio companies.

During the three months ended September 30, 2015, we recorded net unrealized depreciation on investments of $3.4 million. The realized gain (loss) and unrealized appreciation (depreciation) across our investments for the three months ended September 30, 2015, were as follows:

| | Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized (Loss) Gain** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized Depreciation (Appreciation)** | **Net (Loss) Gain** |
| Acme Cryogenics, Inc. | $ | $ 3,762 | $ | $ 3,762 |
| D.P.M.S., Inc. | | 3,571 | | 3,571 |
| Drew Foam Companies, Inc. | | 2,829 | | 2,829 |
| SOG Specialty Knives & Tools, LLC | | 2,089 | | 2,089 |
| Cambridge Sound Management, Inc. | | 2,038 | | 2,038 |
| Frontier Packaging, Inc. | | 1,957 | | 1,957 |
| Jackrabbit, Inc. | | 1,845 | | 1,845 |
| Behrens Manufacturing, LLC | | 1,173 | | 1,173 |
| Tread Corporation | | 1,038 | | 1,038 |
| NDLI, Inc. | (2,740) | | 3,480 | 740 |
| Head Country, Inc. | | 478 | | 478 |
| Country Club Enterprises, LLC | | 444 | | 444 |
| Mitchell Rubber Products, Inc. | | 400 | | 400 |
| Precision Southeast, Inc. | | 352 | | 352 |
| Ginsey Home Solutions, Inc. | | 306 | | 306 |
| B-Dry, LLC | | (259) | | (259) |
| Channel Technologies Group, LLC | | (305) | | (305) |
| Logo Sportswear, Inc. | | (613) | | (613) |
| Brunswick Bowling Products, Inc. | | (1,074) | | (1,074) |
| Cavert II Holdings Corp. | (1) | | (1,483) | (1,484) |
| Edge Adhesives Holdings, Inc. | | (1,538) | 9 | (1,529) |
| Counsel Press, Inc. | | (1,906) | | (1,906) |
| Meridian Rack & Pinion, Inc. | | (2,072) | | (2,072) |
| SBS Industries, LLC | | (2,119) | | (2,119) |
| Old World Christmas, Inc. | | (2,452) | | (2,452) |
| Mathey Investments, Inc. | | (2,483) | | (2,483) |
| Alloy Die Casting Co. | | (3,017) | | (3,017) |
| Funko, LLC | | (4,407) | | (4,407) |
| Galaxy Tool Holding Corporation | | (5,255) | | (5,255) |
| Other, net (<$250 Net) | 1 | (181) | | (180) |
| **Total** | **$ (2,740)** | **$ (5,399)** | **$ 2,006** | **$ (6,133)** |

The primary driver of net unrealized depreciation of $3.4 million for the three months ended September 30, 2015, was a decline in the performance of certain portfolio companies as well as a decline in the value of our investment in Funko due to including estimated taxes payable, which were partially offset by increased performance in certain portfolio companies.

Across our entire investment portfolio, we recorded $1.3 million of net unrealized appreciation on our debt positions and $6.3 million of net unrealized depreciation on our equity holdings for the three months ended September 30, 2016. At September 30, 2016, the fair value of our investment portfolio was less than our cost basis by $36.4 million, as compared to $31.4 million at June 30, 2016, representing net unrealized depreciation of $5.0 million for the three months ended September 30, 2016. Our entire portfolio had a fair value of 93.0% of cost as of September 30, 2016.

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*Comparison of the Six Months Ended September 30, 2016 to the Six Months Ended September 30, 2015*

| | For the Six Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2016 | 2015 | $ Change | % Change |
| **INVESTMENT INCOME** | | | | |
| Interest income | **$ 23,358** | $ 23,330 | $ 28 | 0.1% |
| Other income | **2,779** | 3,116 | (337) | (10.8) |
| Total investment income | **26,137** | 26,446 | (309) | (1.2) |
| **EXPENSES** | | | | |
| Base management fee | **4,998** | 4,963 | 35 | 0.7 |
| Loan servicing fee | **3,403** | 3,266 | 137 | 4.2 |
| Incentive fee | **2,249** | 2,796 | (547) | (19.6) |
| Administration fee | **574** | 625 | (51) | (8.2) |
| Interest and dividend expense | **6,104** | 5,977 | 127 | 2.1 |
| Amortization of deferred financing costs and discounts | **962** | 943 | 19 | 2.0 |
| Other | **1,277** | 1,662 | (385) | (23.2) |
| Expenses before credits from Adviser | **19,567** | 20,232 | (665) | (3.3) |
| Credits to fees from Adviser | **(5,354)** | (4,972) | (382) | 7.7 |
| Total expenses, net of credits to fees | **14,213** | 15,260 | (1,047) | (6.9) |
| **NET INVESTMENT INCOME** | **11,924** | 11,186 | 738 | 6.6 |
| **REALIZED AND UNREALIZED GAIN (LOSS)** | | | | |
| Net realized gain (loss) on investments | **18,624** | (2,541) | 21,165 | NM |
| Net realized loss on other | **(257)** | | (257) | NM |
| Net unrealized depreciation of investments | **(5,934)** | (196) | (5,738) | NM |
| Net unrealized appreciation of other | **75** | | 75 | NM |
| Net realized and unrealized gain (loss) | **12,508** | (2,737) | 15,245 | NM |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | **$ 24,432** | $ 8,449 | $ 15,983 | 189.2 |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | | |
| Net investment income | **$ 0.39** | $ 0.37 | $ 0.02 | 5.4% |
| Net increase in net assets resulting from operations | **$ 0.81** | $ 0.28 | $ 0.53 | 189.3 |

*NM = Not Meaningful*

**Investment Income**

Total investment income decreased by 1.2% for the six months ended September 30, 2016, as compared to the prior year period. This decrease was primarily due to a decrease in other income for the six months ended September 30, 2016 as compared to the prior year period.

Interest income from our investments in debt securities remained relatively flat for the six months ended September 30, 2016, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the six months ended September 30, 2016, was $371.5 million, compared to $368.3 million for the prior year period. This increase was primarily due to $31.9 million in new debt investments originated after September 30, 2015, partially offset by the pay-off of $30.9 million of debt investments principally related to the exit of portfolio companies.

At September 30, 2016 and 2015, our loans to one portfolio company, Tread Corporation ( Tread ), were on non-accrual status, with an aggregate debt cost basis of $3.2 million and $11.7 million, respectively. The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as other income, was 12.6% and 12.7% for the six months ended September 30, 2016 and 2015, respectively. The weighted average yield may vary from period to period, based on the current stated interest rate on interest-bearing investments.

Other income for the six months ended September 30, 2016 decreased 10.8% from the prior year period. During the six months ended September 30, 2016, other income primarily consisted of $2.8 million of dividend income. For the six months ended September 30, 2015, other income primarily consisted of $2.2 million of dividend income and $0.9 million of success fee income.

The following table lists the investment income for our five largest portfolio company investments based on fair value during the respective periods:

| | As of September 30, 2016 | | Six months ended September 30, 2016 | |
|---|---|---|---|---|
| **Portfolio Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| Counsel Press, Inc. | $ 31,937 | 6.6% | $ 1,563 | 6.0% |
| Cambridge Sound Management, Inc. | 26,061 | 5.4 | 1,013 | 3.9 |
| The Mountain Corporation[(A)] | 23,628 | 4.9 | 1,011 | 3.9 |
| Old World Christmas, Inc. | 22,143 | 4.6 | 1,062 | 4.1 |
| GI Plastek, Inc. | 21,291 | 4.4 | 1,010 | 3.9 |
| **Subtotal five largest investments** | **125,060** | **25.9** | **5,659** | **21.8** |
| Other portfolio companies | 360,912 | 74.1 | 20,478 | 78.2 |
| **Total investment portfolio** | **$ 485,972** | **100.0%** | **$ 26,137** | **100.0%** |

| | As of September 30, 2015 | | Six months ended September 30, 2015 | |
|---|---|---|---|---|
| **Portfolio Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| SOG Specialty Knives & Tools, LLC | $ 31,855 | 6.5% | $ 1,332 | 5.0% |
| Acme Cryogenics, Inc.[(B)] | 29,331 | 6.0 | 848 | 3.2 |
| Cambridge Sound Management, Inc. | 28,218 | 5.8 | 991 | 3.8 |
| Counsel Press, Inc. | 27,707 | 5.6 | 1,594 | 6.0 |
| Funko, LLC.[(B)] | 26,814 | 5.5 | 923 | 3.5 |
| **Subtotal five largest investments** | **143,925** | **29.4** | **5,688** | **21.5** |
| Other portfolio companies | 346,710 | 70.6 | 20,758 | 78.5 |
| **Total investment portfolio** | **$ 490,635** | **100.0%** | **$ 26,446** | **100.0%** |

(A) New investment during the applicable period.

(B) Investment exited subsequent to September 30, 2015.

**Expenses**

Total expenses, net of any voluntary, unconditional, and irrevocable credits from the Adviser, decreased by 6.9% during the six months ended September 30, 2016, as compared to the prior year period, primarily as a result of a decrease in the incentive fee and in other expenses, and an increase in voluntary, unconditional, and irrevocable credits from the Adviser, partially offset by an increase in interest and dividend expense.

The incentive fee decreased for the six months ended September 30, 2016, as compared to the prior year period, as the increase in net investment income over the respective periods was more than offset by the impact of the increase in net assets, which drives the hurdle rate, over the same period.

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The base management fee, loan servicing fee, incentive fee, and their related voluntary, unconditional, and irrevocable credits are computed quarterly, as described under *Transactions with the Adviser* in Note 4 *Related Party Transactions* of the notes to our accompanying *Consolidated Financial Statements* and are summarized in the following table:

| | Six Months Ended September 30, | |
|---|---|---|
| | **2016** | **2015** |
| Average total assets subject to base management fee(A) | **$ 499,800** | $ 496,300 |
| Multiplied by prorated annual base management fee of 2.0% | **1.0%** | 1.0% |
| **Base management fee(B)** | **4,998** | 4,963 |
| Credits to fees from Adviser - other(B) | **(1,951)** | (1,706) |
| **Net base management fee** | **$ 3,047** | $ 3,257 |
| **Loan servicing fee(B)** | **$ 3,403** | $ 3,266 |
| Credits to base management fee - loan servicing fee(B) | **(3,403)** | (3,266) |
| **Net loan servicing fee** | **$** | $ |
| **Incentive fee(B)** | **$ 2,249** | $ 2,796 |
| Credits to fees from Adviser - other(B) | | |
| **Net incentive fee** | **$ 2,249** | $ 2,796 |

(A) Average total assets subject to the base management fee is defined as total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective periods and adjusted appropriately for any share issuances or repurchases during the periods.

(B) Reflected as a line item on our accompanying *Consolidated Statements of Operations*.

Interest and dividend expense increased 2.1% during the six months ended September 30, 2016, as compared to the prior year period**,** primarily due to dividends paid related to our Series C Term Preferred Stock issued in May 2015, partially offset by lower costs of borrowings on our Credit Facility, as the increase in the effective interest rate was more than offset by the decrease in average borrowings outstanding. Interest expense decreased $0.2 million from the prior year period, as the weighted average balance outstanding on our Credit Facility during the six months ended September 30, 2016 was $77.5 million as compared to $100.9 million in the prior year period. The effective interest rate on our Credit Facility, excluding the impact of deferred financing costs, during the six months ended September 30, 2016 was 4.5% as compared to 4.0% in the prior year period. Dividends on mandatorily redeemable preferred stock increased $0.3 million from the prior year period, when the Series C Term Preferred Stock was newly issued and only outstanding for a portion of the period.

Other expenses decreased 23.2% during the six months ended September 30, 2016, as compared to the prior year period, primarily as a result of lower professional fees, including legal and diligence fees, and lower bad debt expense, partially offset by the recognition of excise tax expense during the six months ended September 30, 2016.

**Realized and Unrealized Gain (Loss)**

*Net Realized Gain on Investments*

During the six months ended September 30, 2016, we recorded net realized gains on investments of $18.6 million, primarily related to the $18.8 million realized gain from the exit of Acme, compared to net realized losses of $2.5 million during the prior year period primarily related to a $2.7 million realized loss due to the restructuring of NDLI, partially offset by a realized gain of $0.2 million related to the sale of Roanoke Industries Corp.

*Net Realized Loss on Other*

During the six months ended September 30, 2016, we recorded a net realized loss on other of $0.3 million, of which $0.2 million related to the redemption of our Series A Term Preferred Stock in September 2016 and $0.1 million related to the expiration of our interest rate cap agreement in April 2016. There were no realized gains or losses on other during the six months ended September 30, 2015.

*Net Unrealized Appreciation (Depreciation) of Investments*

During the six months ended September 30, 2016, we recorded net unrealized depreciation of investments of $5.9 million. The realized gain (loss) and unrealized appreciation (depreciation) across our investments for the six months ended September 30, 2016, were as follows:

| | Six Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized Gain (Loss)** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized (Appreciation) Depreciation** | **Net Gain (Loss)** |
| Galaxy Tool Holding Corporation | $ | $ 8,957 | $ | $ 8,957 |
| Mitchell Rubber Products, Inc. | | 5,766 | | 5,766 |
| Brunswick Bowling Products, Inc. | | 4,619 | | 4,619 |
| Head Country, Inc. | | 4,240 | | 4,240 |
| Counsel Press, Inc. | | 3,037 | | 3,037 |
| Logo Sportswear, Inc. | | 2,914 | | 2,914 |
| Old World Christmas, Inc. | | 2,214 | | 2,214 |
| Behrens Manufacturing, LLC | | 1,820 | | 1,820 |
| Jackrabbit, Inc. | | 1,329 | | 1,329 |
| Ginsey Home Solutions, Inc. | | 1,070 | | 1,070 |
| GI Plastek, Inc. | | 619 | | 619 |
| Country Club Enterprises, LLC | | 427 | | 427 |
| B-Dry, LLC | | 310 | | 310 |
| Edge Adhesives Holdings, Inc. | | 240 | | 240 |
| Drew Foam Companies, Inc. | | 204 | | 204 |
| Schylling, Inc. | | 203 | | 203 |
| Diligent Delivery Systems | | 146 | | 146 |
| Meridian Rack & Pinion, Inc. | | (393) | | (393) |
| Alloy Die Casting Co. | | (448) | | (448) |
| Nth Degree, Inc. | | (687) | | (687) |
| Frontier Packaging, Inc. | | (869) | | (869) |
| Tread Corporation | | (1,336) | | (1,336) |
| Mathey Investments, Inc. | | (1,405) | | (1,405) |
| The Mountain Corporation | | (1,872) | | (1,872) |
| D.P.M.S., Inc. | | (2,228) | | (2,228) |
| SBS Industries, LLC | | (2,342) | | (2,342) |
| Acme Cryogenics, Inc. | 18,826 | | (21,216) | (2,390) |
| Cambridge Sound Management, Inc. | | (2,774) | | (2,774) |
| Precision Southeast, Inc. | | (3,922) | | (3,922) |
| SOG Specialty Knives & Tools, LLC | | (4,913) | | (4,913) |
| Other, net (<$250 Net) | (202) | 356 | | 154 |
| **Total** | **$ 18,624** | **$ 15,282** | **$ (21,216)** | **$ 12,690** |

The primary driver of net unrealized depreciation of $5.9 million for the six months ended September 30, 2016, was the reversal of $21.2 million of previously recorded unrealized appreciation on our investment in Acme upon exit, which was partially offset by net unrealized appreciation of the existing portfolio resulting from an increase in performance of several of our portfolio companies.

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During the six months ended September 30, 2015, we recorded net unrealized depreciation on investments of $0.2 million. The realized gain (loss) and unrealized appreciation (depreciation) across our investments for the six months ended September 30, 2015, were as follows:

| | Six months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized (Loss) Gain** | **Unrealized (Depreciation) Appreciation** | **Reversal of Unrealized Depreciation (Appreciation)** | **Net (Loss) Gain** |
| Acme Cryogenics, Inc. | $ | $ 6,312 | $ | $ 6,312 |
| D.P.M.S., Inc. | | 6,041 | | 6,041 |
| Cambridge Sound Management, Inc. | | 6,020 | | 6,020 |
| Frontier Packaging, Inc. | | 5,441 | | 5,441 |
| Tread Corporation | | 2,558 | | 2,558 |
| Drew Foam Companies, Inc. | | 2,506 | | 2,506 |
| Precision Southeast, Inc. | | 2,020 | | 2,020 |
| Behrens Manufacturing, LLC | | 1,845 | | 1,845 |
| Funko, LLC | | 1,806 | | 1,806 |
| NDLI, Inc. | (2,740) | (50) | 3,480 | 690 |
| Logo Sportswear, Inc. | | 591 | | 591 |
| Head Country, Inc. | | 324 | | 324 |
| Mitchell Rubber Products, Inc. | | 292 | | 292 |
| B-Dry, LLC | | (258) | | (258) |
| Quench Holdings Corp. | | (271) | | (271) |
| Channel Technologies Group, LLC | | (393) | | (393) |
| Ginsey Home Solutions, Inc. | | (662) | | (662) |
| Mathey Investments, Inc. | | (780) | | (780) |
| Jackrabbit, Inc. | | (931) | | (931) |
| Country Club Enterprises, LLC | | (993) | | (993) |
| Brunswick Bowling Products, Inc. | | (1,074) | | (1,074) |
| SBS Industries, LLC | | (1,290) | | (1,290) |
| Cavert II Holding Corp. | (1) | 63 | (1,483) | (1,421) |
| Meridian Rack & Pinion, Inc. | | (3,311) | | (3,311) |
| Counsel Press, Inc. | | (3,338) | | (3,338) |
| Edge Adhesives Holdings, Inc. | | (3,653) | 9 | (3,644) |
| Alloy Die Casting Co. | | (4,377) | | (4,377) |
| B+T Group Acquisition, Inc. | | (4,541) | | (4,541) |
| Galaxy Tool Holding Corporation | | (5,255) | | (5,255) |
| Old World Christmas, Inc. | | (6,657) | | (6,657) |
| Other, net (<$250 Net) | 200 | (77) | (110) | 13 |
| **Total** | **$ (2,541)** | **$ (2,092)** | **$ 1,896** | **$ (2,737)** |

The primary driver of net unrealized depreciation of $0.2 million for the six months ended September 30, 2015, was a decline in the performance of certain portfolio companies, partially offset by the reversal of net depreciation upon the restructure and exit of investments, an increase in performance of certain portfolio companies and, to a lesser extent,

an increase in certain comparable multiples used to estimate the fair value of our investments.

Across our entire investment portfolio, we recorded $1.0 million of net unrealized appreciation on our debt positions and $6.9 million of net unrealized depreciation on our equity holdings for the six months ended September 30, 2016. At September 30, 2016, the fair value of our investment portfolio was less than our cost basis by $36.4 million, as compared to $30.5 million at March 31, 2016, representing net unrealized depreciation of $5.9 million for the six months ended September 30, 2016. Our entire portfolio had a fair value of 93.0% of cost as of September 30, 2016.

*Net Unrealized Appreciation on Other*

During the six months ended September 30, 2016, we recorded net unrealized appreciation on other of $75 due to the reversal of previously recorded depreciation upon the expiration of our interest rate cap agreement in April 2016. There was no net unrealized appreciation or depreciation on other during the six months ended September 30, 2015.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Net cash provided by operating activities for the six months ended September 30, 2016 was $27.9 million, as compared to net cash used in operating activities of $14.6 million for the six months ended September 30, 2015. This change was primarily due to increased investment repayments and net proceeds from sales of investments, as well as a decrease in cash paid for the purchase of investments period over period. Purchases of investments were $31.2 million during the six months ended September 30, 2016 compared to $40.0 million during the six months ended September 30, 2015. Repayments and proceeds from the sale of investments totaled $45.1 million during the six months ended September 30, 2016 compared to $12.7 million during the six months ended September 30, 2015.

As of September 30, 2016, we had equity investments in or loans to 36 portfolio companies with an aggregate cost basis of $522.4 million. As of September 30, 2015, we had equity investments in or loans to 35 portfolio companies with an aggregate cost basis of $530.3 million. The following table summarizes our total portfolio investment activity during the six months ended September 30, 2016 and 2015:

| | Six Months Ended September 30, | |
|---|---|---|
| | **2016** | **2015** |
| Beginning investment portfolio, at fair value | **$ 487,656** | $ 466,053 |
| New investments | **25,500** | 37,170 |
| Disbursements to existing portfolio companies | **5,686** | 2,875 |
| Scheduled principal repayments | | (3,440) |
| Unscheduled principal repayments | **(16,661)** | (7,143) |
| Net proceeds from sales of investments | **(28,479)** | (2,159) |
| Net realized gain (loss) on investments | **18,204** | (2,525) |
| Net unrealized appreciation (depreciation) of investments | **15,282** | (2,092) |
| Reversal of net unrealized (appreciation) depreciation of investments | **(21,216)** | 1,896 |
| Ending investment portfolio, at fair value | **$ 485,972** | $ 490,635 |

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of September 30, 2016:

| | | Amount |
|---|---|---|
| For the remaining six months ending March 31: | 2017 | $ 3,900 |
| For the fiscal years ending March 31: | 2018 | 93,460 |
| | 2019 | 82,766 |
| | 2020 | 86,109 |
| | 2021 | 75,515 |

| | |
|---|---|
| Thereafter | 34,600 |
| **Total contractual repayments** | **$ 376,350** |
| Investments in equity securities | 146,025 |
| **Total cost basis of investments held as of September 30, 2016:** | **$ 522,375** |

**Financing Activities**

Net cash used in financing activities for the six months ended September 30, 2016 was $27.2 million, which consisted primarily of $31.5 million of net repayments on our Credit Facility, $11.4 million in distributions to common stockholders, and the redemption of one series of mandatorily redeemable term preferred stock of $40.0 million, partially offset by net proceeds from the issuance of another series of mandatorily redeemable term preferred stock of $55.4 million in September 2016. Net cash provided by financing activities for the six months ended September 30, 2015 was $15.3 million, which consisted primarily of $38.5 million of net proceeds from the issuance of mandatorily redeemable term preferred stock and $3.4 million of net proceeds from the issuance of common shares in April 2015, partially offset by $15.3 million of net repayments on our Credit Facility and $11.4 million in distributions to common stockholders.

## Distributions and Dividends to Stockholders

### *Common Stock Distributions*

To qualify to be taxed as a RIC and thus avoid corporate level federal income tax on the income we distribute to our stockholders, we are required to distribute to our stockholders on an annual basis at least 90% of our ordinary income plus the excess of our net short-term capital gains over net long-term capital losses ( Investment Company Taxable Income ). Additionally, our Credit Facility generally restricts the amount of distributions to stockholders that we can pay out to be no greater than the sum of certain amounts, including, but not limited to, our net investment income, plus net capital gains, plus amounts elected by the Company to be considered as having been paid during the prior fiscal year in accordance with Section 855(a) of the Code. In accordance with these requirements, our Board of Directors declared, and we paid, monthly cash distributions of $0.0625 per common share for each of the six months from April 2016 through September 2016. Our Board of Directors declared these distributions based on estimates of Investment Company Taxable Income for the fiscal year ending March 31, 2017.

For federal income tax purposes, we determine the tax characterization of our common distributions as of the end of our fiscal year based upon our taxable income for the full fiscal year and distributions paid during the full fiscal year. The characterization of the common stockholder distributions declared and paid for the year ending March 31, 2017 will be determined after the 2017 fiscal year end based upon our taxable income for the full year and distributions paid during the full year. Such a characterization made on an interim quarterly basis may not be representative of the actual full year characterization.

For the year ended March 31, 2016, distributions to common stockholders totaled $22.7 million, which was less than our taxable income for the same year, when also considering prior spillover amounts under Section 855(a) of the Code. At March 31, 2016, we elected to treat $6.9 million of the first distributions paid after fiscal year-end as having been paid in the prior fiscal year, in accordance with Section 855(a) of the Code. In addition, we recorded a $1.7 million adjustment for estimated permanent book-tax differences, which decreased Capital in excess of par value and Accumulated net realized loss and increased Net investment income in excess of distributions as of March 31, 2016. As of September 30, 2016, we recorded a $0.8 million adjustment for estimated permanent book-tax differences, which decreased Capital in excess of par value, and increased Accumulated net realized gain (loss) and Net investment income in excess of distributions.

### *Preferred Stock Dividends*

Our Board of Directors declared and we paid monthly cash dividends of $0.1484375 per share to holders of our Series A Term Preferred Stock, $0.140625 per share to holders of our Series B Term Preferred Stock, and $0.135417 per share to holders of our Series C Term Preferred Stock for each of the six months from April 2016 through September 2016. In accordance with GAAP, we treat these monthly dividends as an operating expense. For federal income tax purposes, the dividends paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

### *Dividend Reinvestment Plan*

Our common stockholders who hold their shares through our transfer agent, Computershare, Inc. ( Computershare ), have the option to participate in a dividend reinvestment plan offered by Computershare. This is an opt in dividend reinvestment plan, meaning that common stockholders may elect to have their cash distributions automatically reinvested in additional shares of our common stock. Common stockholders who do not so elect will receive their distributions in cash. Common stockholders who receive distributions in the form of stock will be subject to the same

federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. The common stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the date on which the shares are credited to the common stockholder s account. Our plan agent purchases shares in the open market in connection with the obligations under the plan. The Computershare dividend reinvestment plan is not open to our preferred stock stockholders.

**Equity**

***Registration Statement***

On June 16, 2015, we filed a registration statement on Form N-2 (File No. 333-204996) with the SEC and subsequently filed a Pre-Effective Amendment No. 1 to the registration statement on July 28, 2015, which the SEC declared effective on July 29, 2015. On June 8, 2016, we filed Post-Effective Amendment No. 1 to the registration statement, which the SEC declared effective on July 28, 2016. The registration statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities and warrants to purchase common or preferred stock, including through concurrent, separate offerings of such securities. After the Series D Term Preferred Stock offering in September 2016, we currently have the ability to issue up to $242.5 million in securities under the registration statement.

### *Common Stock*

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the timing or terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. When our common stock is trading at a price below NAV per share, as it has predominantly since September 30, 2008, the 1940 Act places regulatory constraints on our ability to obtain additional capital by issuing common stock. Generally, the 1940 Act provides that we may not issue and sell our common stock at a price below our NAV per common share, other than to our then existing common stockholders pursuant to a rights offering, without first obtaining approval from our stockholders and our independent directors, and meeting other stated requirements. On November 1, 2016, the closing market price of our common stock was $8.53 per share, representing an 11.6% discount to our NAV of $9.65 per share as of September 30, 2016. To the extent that our common stock continues to trade at a market price below our NAV per common share, we will generally be precluded from raising equity capital through public offerings of our common stock, other than pursuant to stockholder approval or through a rights offering to existing common stockholders. At our 2016 Annual Meeting of Stockholders held on August 4, 2016, our stockholders approved a proposal authorizing us to issue and sell shares of our common stock at a price below our then current NAV per common share for a period of one year from the date of such approval, provided that our Board of Directors makes certain determinations prior to any such sale.

### *Term Preferred Stock*

Pursuant to our prior registration statement on Form N-2 (File No. 333-160720), in March 2012, we completed an offering of 1,600,000 shares of our Series A Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $40.0 million, and net proceeds, after deducting underwriting discounts and offering costs borne by us, were $38.0 million, a portion of which was used to repay borrowings under our Credit Facility, with the remaining proceeds being held to make additional investments and for general corporate purposes. Total underwriting discounts and offering costs related to this offering were $2.0 million, which have been recorded as discounts to the liquidation value on our accompanying *Consolidated Statements of Assets and Liabilities* and which, prior to the redemption in September 2016, were amortized over the period ending February 28, 2017, the mandatory redemption date.

Prior to its redemption in September 2016, our Series A Term Preferred Stock provided for a fixed dividend equal to 7.125% per year, payable monthly (which equated to $2.9 million per year). We were required to redeem all of the outstanding Series A Term Preferred Stock on February 28, 2017, for cash at a redemption price equal to $25.00 per share plus an amount equal to accumulated but unpaid dividends, if any, to the date of redemption. Our Series A Term Preferred Stock was not convertible into our common stock or any other security.

In September 2016, we used a portion of the proceeds from the issuance of our Series D Term Preferred Stock discussed below to voluntarily redeem all 1.6 million outstanding shares of our Series A Term Preferred Stock, which had a liquidation preference of $25.00 per share. In connection with this voluntary redemption, we incurred a loss on extinguishment of debt of $0.2 million, which has been recorded in Realized loss on other in our accompanying *Consolidated Statements of Operations* and which was primarily comprised of unamortized deferred issuance costs at the time of redemption.

Pursuant to our prior registration statement on Form N-2 (Registration No. 333-181879), in November 2014, we completed a public offering of 1,656,000 shares of our Series B Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $41.4 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were $39.7 million. Total underwriting discounts and offering costs related to this offering were $1.7 million, which have been recorded as discounts to the liquidation value on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending December 31, 2021, the

mandatory redemption date.

Our Series B Term Preferred Stock is not convertible into our common stock or any other security. Our Series B Term Preferred Stock provides for a fixed dividend equal to 6.75% per year, payable monthly (which equates to $2.8 million per year). We are required to redeem all shares of our outstanding Series B Term Preferred Stock on December 31, 2021, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, two other potential mandatory redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series B Term Preferred Stock, and (2) if we fail to maintain an asset coverage ratio of at least 200%, we are required to redeem a portion of our outstanding Series B Term Preferred Stock or otherwise cure the ratio redemption trigger (and we may also redeem additional securities to cause the asset coverage ratio to be 215%). We may also voluntarily redeem all or a portion of our Series B Term Preferred Stock at our sole option at the redemption price at any time on or after December 31, 2017.

Also, pursuant to our prior registration statement on Form N-2 (Registration No. 333-181879), in May 2015, we completed a public offering of 1,610,000 shares of our Series C Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds

totaled $40.3 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were $38.6 million. Total underwriting discounts and offering costs related to this offering were $1.6 million, which have been recorded as discounts to the liquidation value on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending May 31, 2022, the mandatory redemption date.

Our Series C Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.50% per year, payable monthly (which equates to $2.6 million per year). We are required to redeem all shares of our outstanding Series C Term Preferred Stock on May 31, 2022, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, two other potential mandatory redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series C Term Preferred Stock, and (2) if we fail to maintain an asset coverage ratio of at least 200%, we are required to redeem a portion of our outstanding Series C Term Preferred Stock or otherwise cure the ratio redemption trigger (and we may also redeem additional securities to cause the asset coverage ratio to be 215%). We may also voluntarily redeem all or a portion of our Series C Term Preferred Stock at our sole option at the redemption price at any time on or after May 31, 2018.

Pursuant to our current registration statement on Form N-2 (Registration No. 333-204996), in September 2016, we completed a public offering of 2,300,000 shares of our Series D Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $57.5 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were $55.4 million. Total underwriting discounts and offering costs related to this offering were $2.1 million, which have been recorded as discounts to the liquidation value on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending September 30, 2023, the mandatory redemption date.

Our Series D Term Preferred Stock is not convertible into our common stock or any other security. Our Series D Term Preferred Stock provides for a fixed dividend equal to 6.25% per year, payable monthly. We are required to redeem all shares of our outstanding Series D Term Preferred Stock on September 30, 2023, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, two other potential mandatory redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series D Term Preferred Stock, and (2) if we fail to maintain an asset coverage ratio of at least 200% and are unable to correct such failure within a specific amount of time, we are required to redeem a portion of our outstanding Series D Term Preferred Stock or otherwise cure the ratio redemption trigger (and we may also redeem additional securities to cause the asset coverage ratio to be 240%). We may also voluntarily redeem all or a portion of our Series D Term Preferred Stock at our sole option at the redemption price at any time on or after September 30, 2018.

Each series of our mandatorily redeemable preferred stock has a preference over our common stock with respect to dividends, whereby no distributions are payable on our common stock unless the stated dividends, including any accrued and unpaid dividends, on the mandatorily redeemable preferred stock have been paid in full. The Series B, C, and D Term Preferred Stock are considered liabilities in accordance with GAAP and, as such, affect our asset coverage, exposing us to additional leverage risks. The asset coverage on our senior securities that are stock (our Series B, C, and D Term Preferred Stock) as of September 30, 2016 was 235.5%, calculated pursuant to Sections 18 and 61 of the 1940 Act.

**Revolving Credit Facility**

On June 26, 2014, we, through our wholly-owned subsidiary, Business Investment, entered into Amendment No. 1 to our Fifth Amended and Restated Credit Agreement originally entered into on April 30, 2013 with KeyBank National Association ( KeyBank ), administrative agent, lead arranger and a lender; other lenders; and the Adviser, as servicer, to extend the revolving period and reduce the interest rate of our revolving line of credit. The revolving period was extended to June 26, 2017, and if not renewed or extended by June 26, 2017, all principal and interest will be due and payable on or before June 26, 2019. Subject to certain terms and conditions, our Credit Facility can be expanded by up to $145.0 million, to a total facility amount of $250.0 million, through additional commitments of existing or new committed lenders. Advances under our Credit Facility generally bear interest at 30-day LIBOR, plus 3.25% per annum, and our Credit Facility includes an unused fee of 0.50% on undrawn amounts. Once the revolving period ends, the interest rate margin increases to 3.75% for the period from June 26, 2017 to June 26, 2018, and further increases to 4.25% through maturity. We incurred fees of $0.4 million in connection with this amendment.

On September 19, 2014, we further increased our borrowing capacity under our Credit Facility from $105.0 million to $185.0 million by entering into Joinder Agreements pursuant to our Credit Facility, by and among Business Investment, KeyBank, the Adviser and other lenders. We incurred fees of $1.3 million in connection with this expansion.

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

Our Credit Facility also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with KeyBank. KeyBank is also the trustee of the account and generally remits the collected funds to us once a month.

Among other things, our Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict material changes to our credit and collection policies without lenders consent. The Credit Facility generally also limits distributions to be no greater than the sum of certain amounts, including, but not limited to, our net investment income, plus net capital gains, plus amounts elected by the Company to be considered as having been paid during the prior fiscal year in accordance with Section 855(a) of the Code. Business Investment is also subject to certain limitations on the type of loan investments it can make, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life, portfolio company leverage, and lien property. Our Credit Facility also requires Business Investment to comply with other financial and operational covenants, which obligate it to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of obligors required in the borrowing base of the credit agreement. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth of $170.0 million plus 50.0% of all equity and subordinated debt raised minus any equity or subordinated debt redeemed or retired after June 26, 2014, which equates to $233.6 million as of September 30, 2016, (ii) asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Sections 18 and 61 of the 1940 Act, and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of September 30, 2016, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $425.9 million, an asset coverage ratio with respect to senior securities representing indebtedness of 697.8%, calculated in compliance with the requirements of Sections 18 and 61 of the 1940 Act, and an active status as a BDC and RIC. Our Credit Facility requires a minimum of 12 obligors in the borrowing base and, as of September 30, 2016, we had 29 obligors in the borrowing base. As of September 30, 2016, we were in compliance with all covenants under our Credit Facility.

Pursuant to the terms of our Credit Facility, in July 2013, we entered into an interest rate cap agreement, effective October 2013, for a notional amount of $45.0 million. The interest rate cap agreement expired in April 2016. Prior to its expiration in April 2016, the agreement effectively limited the interest rate on a portion of the borrowings pursuant to the terms of our Credit Facility. We incurrent a premium of $75 in conjunction with this agreement, which was recorded within Net realized loss on other on our accompanying *Consolidated Statements of Operations* during the six months ended September 30, 2016 upon the expiration of the agreement.

## OFF-BALANCE SHEET ARRANGEMENTS

Unlike PIK income, we generally recognize success fees as income when the payment has been received. As a result, as of September 30, 2016, we had off-balance sheet success fee receivables of $31.2 million (or $1.03 per common share) on our accruing debt investments that would be owed to us based on our current portfolio if fully paid off. Consistent with GAAP, we have not recognized success fee receivables and related income in our *Consolidated Financial Statements* until earned. Due to the contingent nature of our success fees, there are no guarantees that we will be able to collect any or all of these success fees or know the timing of such collections.

## CONTRACTUAL OBLIGATIONS

We have lines of credit and other uncalled capital commitments to certain of our portfolio companies that have not been fully drawn. Since these lines of credit and uncalled capital commitments have expiration dates and we expect many will never be fully drawn, the total line of credit and other uncalled capital commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused lines of credit and other uncalled capital commitments as of September 30, 2016 to be immaterial.

In addition to the lines of credit and other uncalled capital commitments to our portfolio companies, we have also extended certain guaranties on behalf of one of our portfolio companies, whereby we have guaranteed an aggregate of $2.1 million of obligations of Country Club Enterprises, LLC ( CCE ). These guaranties have terms to maturity that expire between October 2016 and February 2017, unless renewed. As of September 30, 2016, we have not been required to make any payments on any of the guaranties, and we consider the credit risks to be remote and the fair value of the guaranties to be immaterial.

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The following table shows our contractual obligations as of September 30, 2016, at cost:

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| **Contractual Obligations[A]** | **Total** | **Less than 1 Year** | **1-3 Years** | **3-5 Years** | **More than 5 Years** |
| Credit Facility[B] | $ 63,500 | $ | $ 63,500 | $ | $ |
| Mandatorily redeemable preferred stock | 139,150 | | | | 139,150 |
| Secured borrowing | 5,096 | | | 5,096 | |
| Interest payments on obligations[C] | 64,581 | 12,416 | 24,031 | 18,466 | 9,668 |
| **Total** | **$ 272,327** | **$ 12,416** | **$ 87,531** | **$ 23,562** | **$ 148,818** |

(A) Excludes unused line of credit commitments, uncalled capital commitments and guaranties to our portfolio companies in the aggregate principal amount of $8.7 million.

(B) Principal balance of borrowings outstanding under our Credit Facility, based on the maturity date following the current contractual revolver period end date due to the revolving nature of the facility.

(C) Includes interest payments due on our Credit Facility, secured borrowing, and dividend obligations on each series of our mandatorily redeemable term preferred stock. The amount of interest expense calculated for purposes of this table was based upon rates and outstanding balances as of September 30, 2016. Dividend payments on our mandatorily redeemable term preferred stock assume quarterly declarations and monthly dividend payments through the date of mandatory redemption of each series.

## Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, including disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates under different assumptions or conditions. We have identified our investment valuation policy (which has been approved by our Board of Directors) (the Policy ) as our most critical accounting policy, which is described in Note 2 *Summary of Significant Accounting Policies* in the accompanying notes to our *Consolidated Financial Statements* included elsewhere in this report. Additionally, refer to Note 3 *Investments* in the accompanying notes to our *Consolidated Financial Statements* included elsewhere in this report for additional information regarding fair value measurements and our application of Financial Accounting Standards Board (the FASB ) Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ( ASC 820 ). We have also identified our revenue recognition policy as a critical accounting policy, which is described in Note 2 *Summary of Significant Accounting Policies* in the accompanying notes to our *Consolidated Financial Statements* included elsewhere in this report.

### *Investment Valuation*

Credit Monitoring and Risk Rating

The Adviser monitors a wide variety of key credit statistics that provide information regarding our portfolio companies to help us assess credit quality and portfolio performance and, in some instances, used as inputs in our

valuation techniques. Generally, we, through the Adviser, participate in periodic board meetings of our portfolio companies in which we hold board seats and also require them to provide annual audited and monthly unaudited financial statements. Using these statements or comparable information and board discussions, the Adviser calculates and evaluates certain credit statistics.

The Adviser risk rates all of our investments in debt securities. The Adviser does not risk rate our equity securities. For loans that have been rated by a Nationally Recognized Statistical Rating Organization ( NRSRO ) (as defined in Rule 2a-7 under the 1940 Act), the Adviser generally uses the average of two corporate level NRSRO s risk ratings for such security. For all other debt securities, the Adviser uses a proprietary risk rating system. While the Adviser seeks to mirror the NRSRO systems, we cannot provide any assurance that the Adviser s risk rating system will provide the same risk rating as an NRSRO for these securities. The Adviser s risk rating system is used to estimate the probability of default on debt securities and the expected loss if there is a default. The Adviser s risk rating system uses a scale of 0 to >10, with >10 being the lowest probability of default. It is the Adviser s understanding that most debt securities of medium-sized companies do not exceed the grade of BBB on an NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A. Therefore, the Adviser s scale begins with the designation >10 as the best risk rating which may be equivalent to a BBB from an NRSRO; however, no assurance can be given that a >10 on the Adviser s scale is equal to a BBB or Baa2 on an NRSRO scale. The Adviser s risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold.

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The following table reflects risk ratings for all loans in our portfolio as of September 30, 2016 and March 31, 2016:

| Rating | September 30, 2016 | March 31, 2016 |
|---|---|---|
| Highest | **10.0** | 10.0 |
| Average | **6.0** | 6.0 |
| Weighted Average | **6.4** | 6.2 |
| Lowest | **3.0** | 3.0 |

***Tax Status***

We intend to continue to maintain our qualification as a RIC under Subchapter M of the Code for federal income tax purposes. As a RIC, we are not subject to federal income tax on the portion of our taxable income and gains distributed to our stockholders. To maintain our qualification as a RIC, we must meet certain source-of-income and asset diversification requirements. In addition, in order to qualify to be taxed as a RIC, we must distribute to stockholders at least 90.0% of our Investment Company Taxable Income. Our policy generally is to make distributions to our stockholders in an amount up to 100.0% of our Investment Company Taxable Income.

In an effort to limit certain federal excise taxes imposed on RICs, we currently intend to distribute to our stockholders, during each calendar year, an amount at least equal to the sum of: (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and (3) any ordinary income and capital gains in excess of capital losses from preceding years that were not distributed during such years. Under the RIC Modernization Act, we are permitted to carryforward capital losses incurred in taxable years beginning after March 31, 2011, for an unlimited period. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under the Treasury regulations applicable to pre-enactment capital loss carryforwards. Our capital loss carryforward balance was $0 and $13.6 million as of September 30, 2016 and March 31, 2016.

**Recent Accounting Pronouncements**

See Note 2 *Summary of Significant Accounting Policies* in the accompanying notes to our *Consolidated Financial Statements* included elsewhere in this report for a description of recent accounting pronouncements.

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## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The prices of securities held by us may decline in response to certain events, including those directly involving the portfolio companies whose securities we own; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and interest rate fluctuations.

The primary risk we believe we are exposed to is interest rate risk. Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds, such as under our Credit Facility, and the rate at which we invest those funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. We use a combination of debt and equity capital to finance our investing activities. We may use interest rate risk management techniques to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

We target to have approximately 10% of the loans in our portfolio at fixed rates, with approximately 90% at variable rates or variables rates with a floor mechanism. Currently, all of our variable-rate loans have rates associated with the current 30-day LIBOR rate. As of September 30, 2016, our portfolio consisted of the following breakdown based on total principal balance of all outstanding debt investments:

| | |
|---|---|
| 89.8% | Variable rates with a floor |
| 10.2 | Fixed rates |
| **100.0%** | **Total** |

There have been no material changes in the quantitative and qualitative market risk disclosures during the three and six months ended September 30, 2016 from that disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016, as filed with the SEC on May 17, 2016.

## ITEM 4. CONTROLS AND PROCEDURES.

a) Evaluation of Disclosure Controls and Procedures

As of September 30, 2016 (the end of the period covered by this report), we, including our chief executive officer and chief financial officer, evaluated the effectiveness, design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective at a reasonable assurance level in timely alerting management, including the chief executive officer and chief financial officer, of material information about us required to be included in periodic SEC filings. However, in evaluation of the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

b) Changes in Internal Control over Financial Reporting

There were no changes in internal controls for the three and six months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While we do not expect that the resolution of these matters, if they arise, would materially affect our business, financial condition, results of operations or cash flows, resolution will be subject to various uncertainties and could result in the expenditure of significant financial and managerial resources. Further, we are not named as a party to any proceeding that involves a claim for damages that exceeds 10% of our consolidated current assets.

### ITEM 1A. RISK FACTORS.

Our business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our securities. For a discussion of these risks, please refer to the section captioned Item 1A. Risk Factors in Part I of our Annual Report on Form 10-K for the fiscal year ended March 31, 2016, as filed with the SEC on May 17, 2016. The risks described in our Annual Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

*Sales of Unregistered Securities*

Not applicable.

*Issuer Purchases of Equity Securities*

The following table provides information with respect to the purchases made by or on behalf of the Company of our 7.125% Series A Cumulative Term Preferred Stock, par value $0.001 per share (the Series A Term Preferred Stock ), during the second quarter of our fiscal year 2017. The Company elected to voluntarily redeem the entirety of the then issued and outstanding Series A Term Preferred Stock, pursuant to its terms, on September 30, 2016. The Company does not have any existing publicly announced repurchase plans or programs.

| Period | (a) Total Number of Shares of Series A Term Preferred Stock Purchased | (b) Average Price Paid per Share of Series A Term Preferred Stock | (c) Total Number of Shares of Series A Term Preferred Stock Purchased as Part of Publicly | (d) Maximum Number of Shares of Series A Term Preferred Stock that May Yet Be |
|---|---|---|---|---|

| | | | | Announced Plans or Programs | Purchased Under the Plans or Programs |
|---|---|---|---|---|---|
| July 1 through 31, 2016 | | | | | |
| August 1 through 31, 2016 | | | | | |
| September 1 through 30, 2016 | 1,600,000 | $ | 25.00 | | |
| **Total** | **1,600,000** | **$** | **25.00** | | |

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**
Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES.**
Not applicable.

**ITEM 5. OTHER INFORMATION.**
Not applicable.

**ITEM 6. EXHIBITS**
See the exhibit index.

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## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**GLADSTONE INVESTMENT CORPORATION**

By: /s/ Julia Ryan
Julia Ryan
*Chief Financial Officer and Treasurer*

Date: November 2, 2016

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**EXHIBIT INDEX**

| Exhibit | Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit A.2 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005. |
| 3.1.a | Certificate of Designation of 7.125% Series A Cumulative Term Preferred Stock, incorporated by reference to Exhibit 2.A.2 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720), filed February 29, 2012. |
| 3.1.b | Certificate of Designation of 6.75% Series B Cumulative Term Preferred Stock, incorporated by reference to Exhibit 3.3 to the Registration Statement on Form 8-A (File No. 001-34007), filed November 7, 2014. |
| 3.1.c | Certificate of Designation of 6.50% Series C Cumulative Term Preferred Stock, incorporated by reference to Exhibit 3.4 to the Registration Statement on Form 8-A (File No. 001-34007), filed May 11, 2015. |
| 3.1.d | Certificate of Amendment to the Certificate of Designation of 7.125% Series A Cumulative Term Preferred Stock, incorporated by reference to Exhibit 3.5 to the Quarterly Report on Form 10-Q (File No. 814-00704), filed August 4, 2015. |
| 3.1.e | Certificate of Amendment to the Certificate of Designation of 6.75% Series B Cumulative Term Preferred Stock, incorporated by reference to Exhibit 3.6 to the Quarterly Report on Form 10-Q (File No. 814-00704), filed August 4, 2015. |
| 3.1.f | Certificate of Designation of 6.25% Series D Cumulative Term Preferred Stock, incorporated by reference to Exhibit 3.5 to the Registration Statement on Form 8-A (File No. 001-34007), filed September 22, 2016. |
| 3.2 | Amended and Restated Bylaws, incorporated by reference to Exhibit b.2 to the Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 3.3 | First Amendment to Amended and Restated Bylaws of the Registrant, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00704) filed July 10, 2007. |
| 4.1 | Specimen Stock Certificate, incorporated by reference to Exhibit 99.D to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 4.2 | Specimen 6.75% Series B Cumulative Term Preferred Stock Certificate, incorporated by reference to Exhibit 4.3 to the Registration Statement on Form 8-A (File No. 001-34007), filed November 7, 2014. |
| 4.3 | Specimen 6.50% Series C Cumulative Term Preferred Stock Certificate incorporated by reference to Exhibit 4.4 to the Registration Statement on Form 8-A (File No. 001-34007), filed May 11, 2015. |
| 4.4 | Specimen 6.25% Series D Cumulative Term Preferred Stock Certificate incorporated by reference to Exhibit 4.5 to the Registration Statement on Form 8-A (File No. 001-34007), filed September 22, 2016. |
| 11 | Computation of Per Share Earnings (included in the notes to the financial statements contained in this report).* |

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to section 302 of The Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Chief Financial Officer pursuant to section 302 of The Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Chief Executive Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.+ |
| 32.2 | Certification of Chief Financial Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.+ |

* Filed herewith
+ Furnished herewith

All other exhibits for which provision is made in the applicable regulations of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and therefore have been omitted.