UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2015

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 001-34007

GLADSTONE INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**83-0423116** **(I.R.S. Employer Identification No.)**
1521 Westbranch Drive, Suite 100 **McLean, Virginia** **(Address of principal executive offices)**	**22102** **(Zip Code)**

(703) 287-5800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)	(Name of Each Exchange on Which Registered)
Common Stock, $0.001 par value per share	NASDAQ Global Select Market
7.125% Series A Cumulative Term Preferred Stock, $0.001 par value per share	NASDAQ Global Select Market
6.750% Series B Cumulative Term Preferred Stock, $0.001 par value per share	NASDAQ Global Select Market
6.500% Series C Cumulative Term Preferred Stock, $0.001 par value per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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	☒
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 Act). YES ☐ NO ☒

The aggregate market value of the voting stock held by non-affiliates of the Registrant on September 30, 2014, based on the closing price on that date of $7.11 on the NASDAQ Global Select Market, was $183,806,933. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates. There were 30,270,958 shares of the Registrant's Common Stock, $0.001 par value, outstanding as of May 19, 2015.

Documents Incorporated by Reference. Portions of the Registrant's definitive proxy statement relating to the Registrant's 2015 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K as indicated herein. Such proxy statement will be filed with the Securities and Exchange Commission no later than 120 days following the end of the Registrant's fiscal year ended March 31, 2015.

GLADSTONE INVESTMENT CORPORATION
FORM 10-K FOR THE FISCAL YEAR ENDED
MARCH 31, 2015

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FORWARD-LOOKING STATEMENTS

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 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," "would," "if," "seek," "possible," "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 the *"Risk Factors"* section of this Annual Report on Form 10-K. 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K. 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 Securities and Exchange Commission, including subsequent annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

In this Annual Report on Form 10-K, or Annual Report, the "Company," "we," "us," and "our" refer to Gladstone Investment Corporation and its wholly-owned subsidiaries unless the context otherwise indicates. Dollar amounts are in thousands unless otherwise indicated.

PART I

The information contained in this section should be read in conjunction with our accompanying *Consolidated Financial Statements* and the notes thereto appearing elsewhere in this Annual Report on Form 10-K.

ITEM 1. BUSINESS

Overview

Organization

We were incorporated under the General Corporation Law 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"). In order 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.

Our shares of common stock, 7.125% Series A Cumulative Term Preferred Stock ("Series A Term Preferred Stock"), 6.75% Series B Cumulative Term Preferred Stock ("Series B Term Preferred Stock") and 6.50% Series C Cumulative Term Preferred Stock ("Series C Term Preferred Stock") are traded on the NASDAQ Global Select Market ("NASDAQ") under the trading symbols "GAIN," "GAINP," "GAINO," and "GAINN," respectively.

Investment Objectives and Strategy

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States ("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 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, generally in combination with the aforementioned debt securities, of established businesses that we believe can grow 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 each investment generally ranging from $5 million to $30 million, although investment size may vary, 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 March 31, 2015, our investment portfolio was made up of 73% in debt securities and 27% in equity securities, at cost.

We invest by ourselves or jointly with other funds or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

In July 2012, the Securities and Exchange Commission ("SEC") granted us an exemptive 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 believe this ability to co-invest will continue to enhance our ability to further our investment objectives and strategies.

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (based on the one-month London Interbank Offered Rate ("LIBOR")) and, to a lesser extent, at fixed rates. In addition, many of the debt securities we hold typically do not amortize prior to maturity. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, and which may include a yield enhancement such as a success fee or deferred interest provision and are primarily interest only, with all principal and any accrued but unpaid interest due at maturity. Generally, success fees accrue at a set rate and are contractually due upon a change of control of the business. Some debt securities have deferred interest whereby some portion of the interest payment is added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called "paid-in-kind" ("PIK") interest.

Typically, our investments in equity securities take the form of common stock, preferred stock, limited liability company interests, or warrants or options to purchase the foregoing. Often, these equity investments occur in connection with our original investment, buyouts and recapitalizations of a business, or refinancing existing debt.

As of March 31, 2015, our portfolio consisted of investments in 34 companies located in 16 states in 18 different industries with an aggregate fair value of $466.1 million. Since our initial public offering in 2005 and through March 31, 2015, we have invested in over 113 different companies, while making 118 consecutive monthly distributions to common stockholders.

We expect that our investment portfolio will primarily include the following four categories of investments in private companies in the United States ("U.S."):

- *Senior Secured Debt Securities:* We seek to invest a portion of our assets in senior secured debt securities also known as senior loans, senior term loans, lines of credit and senior notes. Using its assets as collateral, the borrower typically uses senior debt to cover a substantial portion of the funding needs of the business. The senior secured debt security usually takes the form of first priority liens on all, or substantially all, of the assets of the business.
- *Senior Subordinated Secured Debt Securities:* We seek to invest a portion of our assets in senior subordinated secured debt securities, also known as senior subordinated loans and senior subordinated notes. These senior subordinated secured debt securities rank junior to the borrower's senior debt securities and may be secured by first priority liens on a portion of the assets of the business or may be designated as second lien notes. Additionally, we may receive other yield enhancements, such as success fees, in connection with these senior subordinated secured debt securities.
- *Junior Subordinated Debt Securities:* We seek to invest a portion of our assets in junior subordinated debt securities, also known as subordinated loans, subordinated notes and mezzanine loans. These junior subordinated debts may be secured by certain assets of the borrower or may be unsecured loans. Additionally, we may receive other yield enhancements in addition to or in lieu of success fees, such as warrants to buy common and preferred stock or limited liability interests in connection with these junior subordinated debt securities.
- *Preferred and Common Equity/Equivalents:* We seek to invest a portion of our assets in equity securities, which consist of preferred and common equity, or limited liability company interests, or warrants or options to acquire such securities, and are generally in combination with our debt investment in a business. Additionally, we may receive equity investments derived from restructurings on some of our existing debt investments. In many cases, we will own a significant portion of the equity which may include having voting control of the businesses in which we invest.

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Additionally, pursuant to the 1940 Act, we must maintain at least 70% of our total assets in qualifying assets, which generally include each of the investment types listed above. Therefore, the 1940 Act permits us to invest up to 30% of our assets in other non-qualifying assets. See "—*Regulation as a BDC — Qualifying Assets*" for a discussion of the types of qualifying assets in which we are permitted to invest pursuant to Section 55(a) of the 1940 Act.

Because the majority of the loans in our portfolio consist of term debt in private companies that typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be rated below what is today considered "investment grade" quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered higher risk, as compared to investment-grade debt instruments.

Investment Concentrations

Year over year, our investment concentration as a percentage of fair value and of cost has remained relatively unchanged. As of March 31, 2015, our investment portfolio consisted of investments in 34 portfolio companies located in 16 states across 18 different industries with an aggregate fair value of $466.1 million, of which our investments in Counsel Press, Inc. ("Counsel Press"), SOG Specialty Knives & Tools, LLC ("SOG"), Funko, LLC ("Funko"), Acme Cryogenics, Inc. ("Acme"), and Old World Christmas, Inc. ("Old World") our five largest portfolio investments at fair value, collectively comprised $134.3 million, or 28.8%, of our total investment portfolio at fair value. The following table summarizes our investments by security type as of March 31, 2015 and 2014:

	March 31, 2015				March 31, 2014			
	Cost		Fair Value		Cost		Fair Value	
Senior secured debt	**$284,509**	**56.3%**	**$263,141**	**56.5%**	$196,293	51.2%	$169,870	54.0%
Senior subordinated secured debt	**85,937**	**17.0**	**70,378**	**15.1**	82,348	21.5	70,827	22.5
Total debt	**370,446**	**73.3**	**333,519**	**71.6**	278,641	72.7	240,697	76.5
Preferred equity	**127,762**	**25.3**	**111,090**	**23.8**	98,099	25.6	62,901	20.0
Common equity/equivalents	**7,050**	**1.4**	**21,444**	**4.6**	6,797	1.7	10,795	3.5
Total equity/equivalents	**134,812**	**26.7**	**132,534**	**28.4**	104,896	27.3	73,696	23.5
Total Investments	**$505,258**	**100.0%**	**$466,053**	**100.0%**	$383,537	100.0%	$314,393	100.0%

Our investments at fair value consisted of the following industry classifications as of March 31, 2015 and 2014:

	March 31, 2015		March 31, 2014	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Home and Office Furnishings, Housewares, and Durable Consumer Products	**$ 70,533**	**15.1%**	$ 21,188	6.7%
Diversified/Conglomerate Manufacturing	**62,996**	**13.5**	54,845	17.4
Chemicals, Plastics, and Rubber	**49,312**	**10.6**	52,753	16.8
Leisure, Amusement, Motion Pictures, Entertainment	**44,931**	**9.6**	39,867	12.7
Diversified/Conglomerate Services	**31,995**	**6.9**	—	—
Machinery (Non-agriculture, Non-construction, Non-electronic	**30,397**	**6.5**	25,917	8.2
Personal and Non-Durable Consumer Products (Manufacturing Only)	**25,008**	**5.4**	10,005	3.2
Automobile	**24,530**	**5.3**	25,735	8.2
Farming and Agriculture	**22,438**	**4.8**	20,557	6.5
Containers, Packaging, and Glass	**19,447**	**4.2**	17,889	5.7
Telecommunications	**19,241**	**4.1**	—	—
Aerospace and Defense	**18,770**	**4.0**	18,512	5.9
Cargo Transport	**13,972**	**3.0**	6,500	2.1
Beverage, Food and Tobacco	**12,982**	**2.8**	13,050	4.2
Textiles and Leather	**10,750**	**2.3**	—	—
Buildings and Real Estate	**1,860**	**0.4**	7,575	2.4
Other < 2.0%	**6,891**	**1.5**	—	—
Total Investments	**$466,053**	**100.0%**	$314,393	100.0%

Our investments at fair value were included in the following U.S. geographic regions as of March 31, 2015 and 2014:

	March 31, 2015		March 31, 2014	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
West	**$161,444**	**34.6%**	$117,781	37.5%
Northeast	**133,814**	**28.7**	67,862	21.6
South	**133,703**	**28.7**	89,915	28.6
Midwest	**37,092**	**8.0**	38,835	12.3
Total Investments	**$466,053**	**100.0%**	$314,393	100.0%

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

Investment Adviser and Administrator

Gladstone Management Corporation (the "Adviser") is our affiliate, investment adviser, and a privately-held company led by a management team that has extensive experience in our lines of business. Another of our and the Adviser's affiliates, a privately-held company, Gladstone Administration, LLC (the "Administrator"), employs, among others, our chief financial officer and treasurer, chief accounting officer, chief valuation officer, chief compliance officer, general counsel and secretary (who also serves as the president of the Administrator) and their respective staffs. All but one of our executive officers serve as directors, executive officers, officers, or a combination of the foregoing, of the following of our affiliates: Gladstone Commercial Corporation ("Gladstone Commercial"), a publicly-traded real estate investment trust; Gladstone Capital Corporation ("Gladstone Capital"), a publicly-traded BDC and RIC; Gladstone Land Corporation ("Gladstone Land"), a publicly-traded real estate investment trust; the Adviser; and the Administrator. Our chief financial officer and treasurer is also the chief financial officer and treasurer of Gladstone Capital. David Gladstone, our chairman and chief executive officer, also serves on the board of managers of our affiliate, Gladstone Securities, LLC ("Gladstone Securities"), a privately-held broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA") and insured by the Securities Investor Protection Corporation.

The Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliates, including, but not limited to, Gladstone Commercial; Gladstone Capital; and Gladstone Land. In the future, the Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds and companies, both public and private.

We have been externally managed by the Adviser pursuant to an investment advisory and management agreement and the Administrator has provided administration services to us under an administration agreement since June 22, 2005. The Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C. The Advisor also has offices in several other states.

Investment Process

Overview of Investment and Approval Process

To originate investments, the Adviser's investment professionals use an extensive referral network comprised primarily of private equity sponsors, venture capitalists, leveraged buyout funds, investment bankers, attorneys, accountants, commercial bankers and business brokers. The Adviser's investment professionals review information received from these and other sources in search of potential financing opportunities. If a potential opportunity matches our investment objectives, the investment professionals will seek an initial screening of the opportunity with our president, David Dullum, to authorize the submission of an indication of interest ("IOI") to the prospective portfolio company. If the prospective portfolio company passes this initial screening and the IOI is accepted by the prospective company, the investment professionals will seek approval to issue a letter of intent ("LOI") from the Adviser's investment committee, which is composed of Mr. Gladstone (our chairman and chief executive officer), Terry Lee Brubaker (our vice chairman and chief operating officer), and Mr. Dullum, to the prospective company. If this LOI is issued, then the Adviser and Gladstone Securities (the "Due Diligence Team") will conduct a due diligence investigation and create a detailed profile summarizing the prospective portfolio company's historical financial statements, industry, competitive position and management team and analyzing its conformity to our general investment criteria. The investment professionals then present this profile to the Adviser's investment committee, which must approve each investment. Further, each investment is available for review by the members of our board of directors (our "Board of Directors"), a majority of whom are not "interested persons" as defined in Section 2(a)(19) of the 1940 Act.

Prospective Portfolio Company Characteristics

We have identified certain characteristics that we believe are important in identifying and investing in prospective portfolio companies. The criteria listed below provide general guidelines for our investment decisions, although not all of these criteria may be met by each portfolio company.

- *Experienced Management.* We typically require that the businesses in which we invest have experienced management teams or a hiring plan in place to install an experienced management team. We also require the businesses to have in place proper incentives to induce management to succeed and act in concert with our interests as investors, including having significant equity or other interests in the financial performance of their companies.
- *Value-and-Income Orientation and Positive Cash Flow.* Our investment philosophy places a premium on fundamental analysis from an investor's perspective and has a distinct value-and-income orientation. In seeking value, we focus on established companies in which we can invest at relatively low multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), and that have positive operating cash flow at the time of investment. In seeking income, we typically invest in companies that generate relatively stable to growing sales, cash flows, and EBITDA to fixed charges coverage, which provides some assurance that the borrowers will be able to service their debt. We do not expect to invest in start-up companies or companies with what we believe to be speculative business plans.
- *Strong Competitive Position in an Industry.* We seek to invest in businesses that have developed strong market positions and significant relative market share within their respective markets and that we believe are well-positioned to capitalize on growth opportunities. We seek businesses that demonstrate significant competitive advantages versus their competitors, which we believe will help to protect their market positions and profitability.
- *Liquidation Value of Assets.* The projected liquidation value of the assets, if any, is an important factor in our investment analysis in collateralizing our debt securities.

Extensive Due Diligence

The Due Diligence Team conducts what we believe are extensive due diligence investigations of our prospective portfolio companies and investment opportunities. The due diligence investigation may begin with a review of publicly available information followed by in depth business analysis, including, but not limited to, some or all of the following:

- a review of the prospective portfolio company's historical and projected financial information, including a quality of earnings analysis;
- visits to the prospective portfolio company's business site(s) and evaluation of potential environmental issues;
- interviews with the prospective portfolio company's management, employees, customers and vendors;
- review of loan documents and material contracts;
- background checks and a management capabilities assessment on the prospective portfolio company's management team; and
- research, including market analyses, on the prospective portfolio company's products, services or particular industry and its competitive position therein.

Upon completion of a due diligence investigation and a decision to proceed with an investment, the Adviser's investment professionals who have primary responsibility for the investment present the investment opportunity to the Adviser's investment committee. The investment committee then determines whether to pursue the potential investment. Additional due diligence of a potential investment may be conducted on our behalf by attorneys and independent accountants, as well as other outside advisers, prior to the closing of the investment, as appropriate.

We also rely on the long-term relationships that the Adviser's investment professionals have with venture capitalists, leveraged buyout funds, investment bankers, commercial bankers, private equity sponsors, attorneys, accountants, and business brokers. In addition, the extensive direct experiences of our executive officers and managing directors in the operations of and providing debt and equity capital to small and medium-sized private businesses plays a significant role in our investment evaluation and assessment of risk.

Investment Structure

Once the Adviser has determined that an investment meets our standards and investment criteria, the Adviser works with the management of that company and other capital providers to structure the transaction in a way that we believe will provide us with the greatest opportunity to maximize our return on the investment, while providing appropriate incentives to management of the company. As discussed above, the capital classes through which we typically structure a deal include senior secured debt, senior subordinated secured debt, junior subordinated secured debt, and preferred and common equity or equivalents, the majority of which is secured first and second lien debt investments. Through its risk management process, the Adviser seeks to limit the downside risk of our investments by:

- making investments with an expected total return (including interest, yield enhancements and potential equity appreciation) that it believes compensates us for the credit risk of the investment;
- seeking collateral or superior positions in the portfolio company's capital structure where possible;
- incorporating put and call protection rights into the investment structure where possible;
- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility as possible in managing their businesses, consistent with preserving our capital; and
- holding board seats or securing board observation rights at the portfolio company.

We expect to hold most of our debt investments until maturity or repayment, but may sell our investments (including our equity investments) earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company or, in the case of an equity investment in a company, its initial public offering. Occasionally, we may sell some or all of our investment interests in a portfolio company to a third party, such as an existing investor in the portfolio company, in a privately negotiated transaction.

Competitive Advantages

A large number of entities compete with us and make the types of investments that we seek to make in small and medium-sized privately-owned businesses. Such competitors include private equity funds, leveraged buyout funds, other BDCs, venture capital funds, investment banks and other equity and non-equity based investment funds, and other financing sources, including traditional financial services companies such as commercial banks. Many of our competitors are substantially larger than we are and have considerably greater funding sources or are able to access capital more cost effectively. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, and establish a larger portfolio of investments. Furthermore, many of these competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. However, we believe that we have the following competitive advantages over many other providers of financing to small and medium-sized businesses.

Management Expertise

Mr. Gladstone, our chairman and chief executive officer, is also the chairman and chief executive officer of the Adviser and its affiliated companies, other than Gladstone Securities, (the "Gladstone Companies") and has been involved in all aspects of the Gladstone Companies' investment activities, including serving as a member of the Adviser's investment committees for each of the Company, Gladstone Capital, Gladstone Commercial, and Gladstone Land. Mr. Gladstone and Mr. Dullum, our president and a director, have extensive experience in investing in middle market companies and with operating in the BDC marketplace in general. Mr. Brubaker, our vice chairman and chief operating officer, has substantial experience in acquisitions and operations of companies. Messrs. Gladstone and Brubaker also have principal management responsibility for the Adviser as its executive officers. These three individuals dedicate a significant portion of their time to managing our investment portfolio. Our senior management has extensive experience providing capital to small and medium-sized companies and has worked together at the Gladstone Companies for more than ten years. In addition, we have access to the resources and expertise of the Adviser's investment professionals and support staff who possess a broad range of transactional, financial, managerial, and investment skills.

Increased Access to Investment Opportunities Developed Through Extensive Research Capability and Network of Contacts

The Adviser seeks to identify potential investments through active origination and due diligence and through its dialogue with numerous management teams, members of the financial community and potential corporate partners with whom the Adviser's investment professionals have long-term relationships. We believe that the Adviser's investment professionals have developed a broad network of contacts within the investment, commercial banking, private equity and investment management communities, and that their reputation, experience, and focus on investing in small and medium-sized companies enables us to source and identify well-positioned prospective portfolio companies, which provide attractive investment opportunities. Additionally, the Adviser expects to generate information from its professionals' network of accountants, consultants, lawyers and management teams of portfolio companies and other companies to support the Adviser's investment activities.

Disciplined, Value and Income-Oriented Investment Philosophy with a Focus on Preservation of Capital

In making its investment decisions, the Adviser focuses on the risk and reward profile of each prospective portfolio company, seeking to minimize the risk of capital loss without foregoing the potential for capital appreciation. We expect the Adviser to use the same value and income-oriented investment philosophy that its professionals use in the management of the other Gladstone Companies and to commit resources to manage downside exposure. The Adviser's approach seeks to reduce our risk in investments by using some or all of the following approaches:

- focusing on companies with attractive and sustainable market positions and cash flow;
- investing in businesses with experienced and established management teams;
- engaging in extensive due diligence from the perspective of a long-term investor;
- investing at low price-to-cash flow multiples; and
- adopting flexible transaction structures by drawing on the experience of the investment professionals of the Adviser and its affiliates.

Longer Investment Horizon

Unlike private equity and venture capital funds that are typically organized as finite-life partnerships, we are not subject to standard periodic capital return requirements. The partnership agreements of most private equity and venture capital funds typically provide that these funds may only invest investors' capital once and must return all capital and realized gains to investors within a finite time period, often seven to ten years. These provisions often force private equity and venture capital funds to seek returns on their investments by causing their portfolio companies to pursue mergers, public equity offerings, or other liquidity events more quickly than might otherwise be optimal or desirable, potentially resulting in a lower overall return to investors and/or an adverse impact on their portfolio companies. In contrast, we are a corporation of perpetual duration and are exchange-traded. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles provides us with the opportunity to achieve greater long-term returns on invested capital.

Flexible Transaction Structuring

We believe our management team's broad expertise and its ability to draw upon many years of combined experience enables the Adviser to identify, assess, and structure investments successfully across all levels of a company's capital structure and manage potential risk and return at all stages of the economic cycle. We are not subject to many of the regulatory limitations that govern traditional lending institutions, such as banks. As a result, we are flexible in selecting and structuring investments, adjusting investment criteria and transaction structures and, in some cases, the types of securities in which we invest, thereby affording us a competitive advantage of providing both, equity and debt financing, which may limit uncertainty related to the close of the transaction. We believe that this approach enables the Adviser to develop a financing structure which best fits the investment and growth profile of the underlying business and yields attractive investment opportunities that will continue to generate current income and capital gain potential throughout the economic cycle, including during turbulent periods in the capital markets.

Leverage

For the purpose of making investments and taking advantage of favorable interest rates, we may issue senior securities up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us to issue senior securities representing indebtedness and senior securities that are stock (collectively our "Senior Securities") in amounts such that we maintain an asset coverage ratio, as defined in Section 18(h) of the 1940 Act, of at least 200% on our Senior Securities immediately after each issuance of such Senior Securities. We may also incur such indebtedness to repurchase our common stock. We may also be exposed to the risks of leverage as a result of incurring indebtedness, generally through our revolving line of credit or issuing Senior Securities representing indebtedness, such as our Series A, Series B, and Series C Term Preferred Stock. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. Our Board of Directors is authorized to provide for the issuance of Senior Securities with such preferences, powers, rights and privileges as it deems appropriate, subject to the requirements of the 1940 Act. See "*—Regulation as a BDC—Asset Coverage*" for a discussion of our leveraging constraints and "*Risk Factors—Risks Related to Our External Financing*" for further discussion of certain leveraging risks.

Ongoing Management of Investments and Portfolio Company Relationships

The Adviser's investment professionals actively oversee each investment by continuously evaluating the portfolio company's performance and typically working collaboratively with the portfolio company's management to identify and incorporate best resources and practices that help us achieve our projected investment performance.

Monitoring

The Adviser's investment professionals monitor the financial performance, trends, and changing risks of each portfolio company on an ongoing basis to determine if each company is performing within expectations and to guide the portfolio company's management in taking the appropriate courses of action. The Adviser employs various methods of evaluating and monitoring the performance of our investments in portfolio companies, which can include the following:

- monthly analysis of financial and operating performance;
- assessment of the portfolio company's performance against its business plan and our investment expectations;
- attendance at and/or participation in the portfolio company's board of directors or management meetings;
- assessment of portfolio company management, sponsor, governance and strategic direction;
- assessment of the portfolio company's industry and competitive environment; and
- review and assessment of the portfolio company's operating outlook and financial projections.

Relationship Management

The Adviser's investment professionals interact with various parties involved with a portfolio company, or investment, by actively engaging with internal and external constituents, including:

- management;
- boards of directors;
- financial sponsors;
- capital partners;
- auditors; and
- advisers and consultants.

Managerial Assistance and Services

As a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. Neither we, nor the Adviser, currently receive fees in connection with the managerial assistance we make available. At times, the Adviser provides other services to certain of our portfolio companies and it receives fees for these other services. 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. At the end of each quarter, we credit 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 agreement with the Adviser, a small percentage of certain of such fees, primarily for the valuation of portfolio companies, is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser.

In February 2011, Gladstone Securities started providing other services (such as investment banking and due diligence services) to certain of our portfolio companies. Any such fees paid by portfolio companies to Gladstone Securities upon origination do not impact the overall fees we pay to the Adviser or the overall fees credited against the base management fee.

Valuation Process

The following is a general description of the Company's investment valuation policy (the "Policy") (which has been approved by our Board of Directors) that the professionals of the Adviser and Administrator, with oversight and direction from the chief valuation officer, an employee of the Administrator that reports directly to the Company's Board of Directors, (collectively, the "Valuation Team") use each quarter to determine the fair value of our investment portfolio. 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 the Policy. The Adviser values our investments in accordance with the requirements of the 1940 Act and accounting principles generally accepted in the U.S. ("GAAP"). 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. Each quarter, our Board of Directors reviews the Policy to determine if changes thereto are advisable and assesses whether the Valuation Team has applied the Policy consistently. With respect to the valuation of our investment portfolio, the Valuation Team performs the following steps each quarter:

- Each portfolio company or investment is initially assessed by the Valuation Team using the Policy, which may include:
  - obtaining fair value quotes or utilizing valuation inputs from third party valuation firms; and
  - using techniques, such as total enterprise value, yield analysis, market quotes and other factors, including but not limited to: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates.
- Preliminary valuation conclusions are then discussed amongst the Valuation Team and with our management and documented for review by our Board of Directors.
- Next, our Board of Directors reviews this documentation and discusses the information provided by our Valuation Team, and determines whether the Valuation Team has followed the Policy, whether the Valuation Team's recommended fair value is reasonable in light of the Policy and reviews other facts and circumstances. Then our Board of Directors votes to accept or reject the Valuation Team's recommended valuation.

Fair value measurements of our investments may involve subjective judgment and estimates. 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. Our valuation policies, procedures and processes are more fully described under *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Investment Valuation."*

Investment Advisory and Management Agreement

We entered into an investment advisory and management agreement with the Adviser (the "Advisory Agreement"). 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. On July 15, 2014, our Board of Directors approved the annual renewal of the Advisory Agreement with the Adviser through August 31, 2015. Our Board of Directors considered the following factors as the basis for its decision to renew the Advisory Agreement: (1) the nature, extent and quality of services provided by the Adviser to our stockholders; (2) the investment performance of the Company and the Adviser, (3) the costs of the services to be provided and profits to be realized by the Adviser and its affiliates from the relationship with the Company, (4) the extent to which economies of scale will be realized as the Company and the Company's affiliates that are managed by the same Adviser (Gladstone Commercial, Gladstone Capital and Gladstone Land) grow and whether the fee level under the Advisory Agreement reflects the economies of scale for the Company's investors, (5) the fee structure of the advisory and administrative agreements of comparable funds, and (6) indirect profits to the Adviser created through the Company and (7) in light of the foregoing considerations, the overall fairness of the advisory fee paid under the Advisory Agreement.

Base Management Fee

The base management fee is computed and generally payable quarterly to the Adviser 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 other agreements and may receive fees for services other than managerial assistance, as discussed above. We generally credit 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, primarily for the valuation of portfolio companies, is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser.

Loan Servicing Fee

The Adviser also services the loans held by our wholly-owned subsidiary, Gladstone Business Investment, LLC ("Business Investment"), in return for which the Adviser receives a 2.0% annual fee based on the monthly aggregate outstanding balance of loans pledged under our revolving line of credit. The entire loan servicing fee paid monthly to the Adviser by Business Investment is voluntarily and irrevocably credited against the base management fee otherwise payable to the Adviser since Business Investment is a consolidated subsidiary of the Company, and overall, the base management fee, inclusive of the loan servicing fee, cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given calendar year pursuant to the Advisory Agreement.

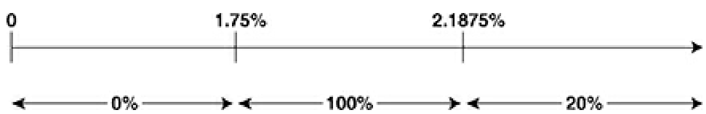
Incentive Fee

The incentive fee consists of two parts: an income-based incentive fee and a capital gains-based incentive fee. The income-based incentive fee rewards the Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the "hurdle rate"). The income-based incentive fee with respect to our pre-incentive fee net investment income is generally 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 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 in any calendar quarter (8.75% annualized).

Quarterly Incentive Fee Based on Net Investment Income

Pre-incentive fee net investment income
(expressed as a percentage of the value of net assets)



Percentage of pre-incentive fee net investment income
allocated to income-related portion of incentive fee

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, if any, 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 the 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 March 31, 2015, 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 reporting 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 March 31, 2015.

Our Board of Directors accepted an unconditional and irrevocable voluntary credit from the Adviser to reduce the income-based incentive fee to the extent net investment income did not cover 100% of the distributions to common stockholders for the year ended March 31, 2013, which credit totaled $0.2 million. For the years ended March 31, 2015 and 2014, there were no such incentive fee credits from the Adviser.

Administration Agreement

We have entered into an administration agreement with the Administrator (the "Administration Agreement"), whereby we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator's expenses incurred while performing services to us, which are primarily rent and salaries and benefits expenses of the Administrator's employees, including our chief financial officer and treasurer, chief accounting officer, chief valuation officer, chief compliance officer and general counsel and secretary (who also serves as the Administrator's president) and their respective staff. Prior to July 1, 2014, our allocable portion of the expenses were generally derived by multiplying that portion of the Administrator's expenses allocable to all funds managed by the Adviser by the percentage of our total assets at the beginning of each quarter in comparison to the total assets at the beginning of each quarter of all funds managed by the Adviser.

Effective July 1, 2014, our allocable portion of the Administrator's expenses are 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 generally paid the following quarter. On July 15, 2014, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2015.

Material U.S. Federal Income Tax Considerations

RIC Status

To qualify for treatment as a RIC under Subchapter M of the Code, we must distribute to our stockholders, for each taxable year, at least 90% of our "investment company taxable income," which is generally our ordinary income plus the excess of our net short-term capital gains over net long-term capital losses. We refer to this as the "annual distribution requirement." We must also meet several additional requirements, including:

- **Business Development Company status.** At all times during the taxable year, we must maintain our status as a BDC.
- **Income source requirements.** At least 90% of our gross income for each taxable year must be from dividends, interest, payments with respect to securities loans, gains from sales or other dispositions of securities or other income derived with respect to our business of investing in securities, and net income derived from an interest in a qualified, publicly-traded partnership.
- **Asset diversification requirements.** As of the close of each quarter of our taxable year: (1) at least 50% of the value of our assets must consist of cash, cash items, U.S. government securities, the securities of other regulated investment companies and other securities to the extent that (a) we do not hold more than 10% of the outstanding voting securities of an issuer of such other securities and (b) such other securities of any one issuer do not represent more than 5% of our total assets (the "50% threshold"), and (2) no more than 25% of the value of our total assets may be invested in the securities of one issuer (other than U.S. government securities or the securities of other regulated investment companies), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses or in the securities of one or more qualified, publicly-traded partnerships.

Failure to Qualify as a RIC

If we are unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make such distributions. Distributions would be taxable to our stockholders as dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's adjusted tax basis, and then as a gain realized from the sale or exchange of property. If we fail to meet the RIC requirements for more than two consecutive years and then seek to requalify as a RIC, we generally would be subject to corporate-level federal income tax on any unrealized appreciation with respect to our assets to the extent that any such unrealized appreciation is recognized during a specified period up to ten years.

Qualification as a RIC

If we qualify as a RIC and distribute to stockholders each year in a timely manner at least 90% of our investment company taxable income, we will not be subject to federal income tax on the portion of our taxable income and gains we distribute to stockholders. We would, however, be subject to a 4% nondeductible federal excise tax if we do not distribute, actually or on a deemed basis, an amount at least equal to the sum of (1) 98% 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 for preceding years that were not distributed during such years. For the years ended December 31, 2014, 2013 and 2012, we incurred $0.1 million, $0.3 million and $31, respectively, in excise taxes. As of March 31, 2015, our capital loss carryforward totaled $0.3 million.

The 4% federal excise tax applies only to the amount by which the required distributions exceed the amount of income we distribute, actually or on a deemed basis, to stockholders. We will be subject to regular corporate income tax, currently at rates up to 35%, on any income that is not distributed or deemed to be distributed, including both ordinary income and capital gains. We may retain some or all of our capital gains, but we generally intend to treat the retained amount as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each stockholder will be required to include its share of the deemed distribution in income as if it had been actually distributed to the stockholder and the stockholder will be entitled to claim a credit or refund equal to its allocable share of the tax we pay on the retained capital gain. The amount of the deemed distribution, net of such tax, will be added to the stockholder's cost basis for its stock. Since we expect to pay tax on any retained capital gains at our regular corporate capital gain tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid will exceed the tax they owe on the capital gain dividend and such excess may be claimed as a credit or refund against the stockholder's other tax obligations. A stockholder that is not subject to U.S. federal income tax or tax on long-term capital gains would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to the stockholders after the close of the relevant tax year. We will also be subject to alternative minimum tax, but any tax preference items would be apportioned between us and our stockholders in the same proportion that distributions, other than capital gain dividends, paid to each stockholder bear to our taxable income determined without regard to the dividends paid deduction. As of March 31, 2015, we have never distributed investment company taxable income as a deemed distribution.

Taxation of Our U.S. Stockholders

Distributions

For any period during which we qualify as a RIC for federal income tax purposes, distributions to our stockholders attributable to our investment company taxable income generally will be taxable as ordinary income to stockholders to the extent of our current or accumulated earnings and profits. We first allocate our earnings and profits to distributions to our preferred stockholders and then to distributions to our common stockholders based on priority in our capital structure. Any distributions in excess of our earnings and profits will first be treated as a return of capital to the extent of the stockholder's adjusted basis in his or her shares of stock and thereafter as gain from the sale of shares of our stock. Distributions of our long-term capital gains, reported by us as such, will be taxable to stockholders as long-term capital gains regardless of the stockholder's holding period for its stock and whether the distributions are paid in cash or invested in additional stock. Corporate stockholders are generally eligible for the 70% dividends received deduction with respect to dividends received from us, other than capital gains dividends, but only to the extent such amount is attributable to dividends received by us from taxable domestic corporations.

Any distribution declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it were paid by us and received by the stockholders on December 31 of the previous year. In addition, we may elect (in accordance with Section 855(a) of the Code) to relate a distribution back to the prior taxable year if we (1) declare such distribution prior to the later of the due date for filing our return for that taxable year or the 15th day of the ninth month following the close of the taxable year, (2) make the election in that return, and (3) distribute the amount in the 12-month period following the close of the taxable year but not later than the first regular distribution payment of the same type following the declaration. Any such election will not alter the general rule that a stockholder will be treated as receiving a distribution in the taxable year in which the distribution is made, subject to the October, November, December rule described above. As of March 31, 2015, our Section 855(a) distributions were $4.0 million.

If a common stockholder participates in our "opt in" dividend reinvestment plan, any distributions reinvested under the plan will be taxable to the common stockholder to the same extent, and with the same character, as if the common stockholder had received the distribution 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 common shares will have a new holding period commencing on the day following the day on which the shares are credited to the common stockholder's account. The plan agent purchases shares in the open market in connection with the obligations under the plan. We do not have a dividend reinvestment plan for our preferred stockholders.

Sale of Our Shares

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our common or preferred stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. Under the tax laws in effect as of the date of this filing, individual U.S. stockholders are subject to a maximum federal income tax rate of 20% on their net capital gain (i.e. the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the same rates applied to their ordinary income (currently up to a maximum of 35%). Capital losses are subject to limitations on use for both corporate and non-corporate stockholders. Certain U.S. stockholders who are individuals, estates or trusts generally are subject to a 3.8% Medicare tax on, among other things, dividends on, and capital gain from the sale or other disposition of, shares of our stock.

Backup Withholding

We may be required to withhold federal income tax, or backup withholding, currently at a rate of 28%, from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the Internal Revenue Service ("IRS") notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is generally his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability, provided that proper information is provided to the IRS.

The Foreign Account Tax Compliance Act ("FATCA") imposes a federal withholding tax on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligation requirements are satisfied. Under delayed effective dates provided for in the Treasury Regulations and other IRS guidance, such required withholding will not begin until January 1, 2017 with respect to gross proceeds from a sale or other disposition of our stock.

Regulation as a BDC

We are a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under Section 54 of the 1940 Act. As such, we are subject to regulation under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates, principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than "interested persons," as defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by a majority of our outstanding "voting securities," as defined in the 1940 Act.

We intend to conduct our business so as to retain our status as a BDC. A BDC may use capital provided by public stockholders and from other sources to invest in long-term private investments in businesses. A BDC provides stockholders the ability to retain the liquidity of a publicly-traded stock while sharing in the possible benefits, if any, of investing in primarily privately owned companies.

In general, a BDC must have been organized and have its principal place of business in the U.S. and must be operated for the purpose of making investments in qualifying assets, as described in Sections 55(a)(1) – (through (a)(3) of the 1940 Act.

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets, other than certain interests in furniture, equipment, real estate, or leasehold improvements ("Operating Assets") represent at least 70% of our total assets, exclusive of Operating Assets. The types of qualifying assets in which we may invest under the 1940 Act include, but are not limited to, the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer is an eligible portfolio company. An eligible portfolio company is generally defined in the 1940 Act as any issuer which:

- (a) is organized under the laws of, and has its principal place of business in, any State or States in the U.S.;
- (b) is not an investment company (other than a small business investment company wholly owned by the BDC or otherwise excluded from the definition of investment company); and
- (c) satisfies one of the following:
  - (i) it does not have any class of securities with respect to which a broker or dealer may extend margin credit;
  - (ii) it is controlled by the BDC and for which an affiliate of the BDC serves as a director;
  - (iii) it has total assets of not more than $4 million and capital and surplus of not less than $2 million;
  - (iv) it does not have any class of securities listed on a national securities exchange; or
  - (v) it has a class of securities listed on a national securities exchange, with an aggregate market value of outstanding voting and non-voting equity of less than $250 million.

(2) Securities received in exchange for or distributed on or with respect to securities described in (1) above, or pursuant to the exercise of options, warrants or rights relating to such securities.

(3) Cash, cash items, government securities or high quality debt securities maturing in one year or less from the time of investment.

As of March 31, 2015, 98.8% of our assets were qualifying assets.

Asset Coverage

Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of Senior Securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of Senior Securities that is stock. In either case, we may only issue such Senior Securities if such class of Senior Securities, after such issuance, has an asset coverage, as defined in Section 18(h) of the 1940 Act, of at least 200%.

In addition, our ability to pay dividends or distributions (other than dividends payable in our stock) to holders of any class of our capital stock would be restricted if our Senior Securities representing indebtedness fail to have an asset coverage of at least 200% (measured at the time of declaration of such distribution and accounting for such distribution). The 1940 Act does not apply this limitation to privately arranged debt that is not intended to be publicly distributed, unless this limitation is specifically negotiated by the lender. In addition, our ability to pay dividends or distributions (other than dividends payable in our common stock) to our common stockholders would be restricted if our Senior Securities that are stock fail to have an asset coverage of at least 200% (measured at the time of declaration of such distribution and accounting for such distribution). If the value of our assets declines, we might be unable to satisfy these asset coverage requirements. To satisfy the 200% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to our stockholders. If we are unable to regain asset coverage through these methods, we may be forced to suspend the payment of such dividends or distributions. As of March 31, 2015, our asset coverage ratio was 230%

Significant Managerial Assistance

A BDC generally must make available significant managerial assistance to issuers of certain of its portfolio securities that the BDC counts as a qualifying asset for the 70% test described above. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. Significant managerial assistance also includes the exercise of a controlling influence over the management and policies of the portfolio company. However, with respect to certain, but not all such securities, where the BDC purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance, or the BDC may exercise such control jointly.

Investment Policies

We seek to achieve a high level of current income and capital gains through investments in debt securities and preferred and common stock that we acquire in connection with buyout and other recapitalizations. The following investment policies, along with these investment objectives, may not be changed without the approval of our Board of Directors:

- We will at all times conduct our business so as to retain our status as a BDC. In order to retain that status, we must be operated for the purpose of investing in certain categories of qualifying assets. In addition, we may not acquire any assets (other than non-investment assets necessary and appropriate to our operations as a BDC or qualifying assets) if, after giving effect to such acquisition, the value of our "qualifying assets" is less than 70% of the value of our total assets. We anticipate that the securities we seek to acquire will generally be qualifying assets.
- We will at all times endeavor to conduct our business so as to retain our status as a RIC under the Code. To do so, we must meet income source, asset diversification and annual distribution requirements. We may issue Senior Securities, such as debt or preferred stock, to the extent permitted by the 1940 Act for the purpose of making investments, to fund share repurchases, or for temporary emergency or other purposes.

With the exception of our policy to conduct our business as a BDC, these policies are not fundamental and may be changed without stockholder approval.

Code of Ethics

We and all of the Gladstone family of companies, have adopted a code of ethics and business conduct applicable to all of the officers, directors and employees of such companies that complies with the guidelines set forth in Item 406 of Regulation S-K of the Securities Act of 1933 (the "Securities Act") and Rule 17j-1 of the 1940 Act. As required by the 1940 Act, this code establishes procedures for personal investments, restricts certain transactions by such personnel and requires the reporting of certain transactions and holdings by such personnel. This code of ethics and business conduct is publicly available on our website under "Corporate Governance" at www.GladstoneInvestment.com. We intend to provide any required disclosure of any amendments to or waivers of the provisions of this code by posting information regarding any such amendment or waiver to our website or in a Current Report on Form 8-K.

Compliance Policies and Procedures

We and the Adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws, and our Board of Directors is required to review these compliance policies and procedures annually to assess their adequacy and the effectiveness of their implementation. We have designated a chief compliance officer, John Dellafiora, Jr., who also serves as chief compliance officer for all of the Gladstone family of companies.

Staffing

We do not currently have any employees and do not expect to have any employees in the foreseeable future. Currently, services necessary for our business are provided by individuals who are employees of the Adviser and the Administrator pursuant to the terms of the Advisory Agreement and the Administration Agreement, respectively. No employee of the Adviser or the Administrator will dedicate all of his or her time to us. However, we expect that 25 to 30 full time employees of the Adviser and the Administrator will spend substantial time on our matters during the remainder of calendar year 2015 and all of calendar year 2016. To the extent we acquire more investments, we anticipate that the number of employees of the Adviser and the Administrator who devote time to our matters will increase.

As of May 5, 2015, the Adviser and Administrator collectively had 63 full-time employees. A breakdown of these employees is summarized by functional area in the table below:

Number of Individuals	Functional Area
10	Executive management
16	Accounting, administration, compliance, human resources, legal and treasury
37	Investment management, portfolio management and due diligence

Available Information

Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments, if any, to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are available free of charge through our website at www.GladstoneInvestment.com as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. A request for any of these reports may also be submitted to us by sending a written request addressed to Investor Relations, Gladstone Investment Corporation, 1521 Westbranch Drive, Suite 100, McLean, VA 22102, or by calling our toll-free investor relations line at 1-866-366-5745. The public may read and copy materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

You should carefully consider these risk factors, together with all of the other information included in this Annual Report on Form 10-K and the other reports and documents filed by us with the SEC. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In such case, our net asset value and the trading price of our securities could decline, and you may lose all or part of your investment. The risk factors described below are the principal risk factors associated with an investment in our securities as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

Risks Related to Our Investments

We operate in a highly competitive market for investment opportunities.

There has been increased competitive pressure in the BDC and investment company marketplace for senior and senior subordinated secured debt, resulting in lower yields for increasingly riskier investments. A large number of entities compete with us and make the types of investments that we seek to make in small and medium-sized companies. We compete with public and private buyout funds, commercial and investment banks, commercial financing companies, and, to the extent that they provide an alternative form of financing, hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which would allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. The competitive pressures we face could have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective. We do not seek to compete based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms, and structure. However, if we match our competitors' pricing, terms, and structure, we may experience decreased net interest income and increased risk of credit loss.

Our investments in small and medium-sized portfolio companies are extremely risky and could cause you to lose all or a part of your investment.

Investments in small and medium-sized portfolio companies are subject to a number of significant risks including the following:

- Small and medium-sized businesses are likely to have greater exposure to economic downturns than larger businesses. Our portfolio companies may have fewer resources than larger businesses, and any economic downturns or recessions, are more likely to have a material adverse effect on them. If one of our portfolio companies is adversely impacted by a recession, its ability to repay our loan or engage in a liquidity event, such as a sale, recapitalization or initial public offering would be diminished.
- *Small and medium-sized businesses may have limited financial resources and may not be able to repay the loans we make to them.* Our strategy includes providing financing to portfolio companies that typically do not have readily available access to financing. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the portfolio companies to repay their loans to us upon maturity. A borrower's ability to repay its loan may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. Deterioration in a borrower's financial condition and prospects usually will be accompanied by deterioration in the value of any collateral and a reduction in the likelihood of realizing on any guaranties we may have obtained from the borrower's management. As of March 15, 2015, one portfolio company was on non-accrual status with an aggregate debt cost basis of approximately $11.7 million, or 3.1% of the cost basis of all debt investments in our portfolio. While we are working with the portfolio company to improve its profitability and cash flows, there can be no assurance that our efforts will prove successful. Although we will generally seek to be the senior secured lender to a borrower, in some of our loans we expect to be subordinated to a senior lender, and our interest in any collateral would, accordingly, likely be subordinate to another lender's security interest.
- *Small and medium-sized businesses typically have narrower product lines and smaller market shares than large businesses.* Because our target portfolio companies are smaller businesses, they will tend to be more vulnerable to

competitors' actions and market conditions, as well as general economic downturns. In addition, our portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.

- *There is generally little or no publicly available information about these businesses.* Because we seek to invest in privately owned businesses, there is generally little or no publicly available operating and financial information about our potential portfolio companies. As a result, we rely on our officers, the Adviser and its employees, Gladstone Securities and consultants to perform due diligence investigations of these portfolio companies, their operations, and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigations.
- *Small and medium-sized businesses generally have less predictable operating results.* We expect that our portfolio companies may have significant variations in their operating results, may from time to time be exposed to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may otherwise have a weak financial position or may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders. A borrower's failure to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on its senior credit facility, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the borrower's ability to repay our loan would be jeopardized.
- *Small and medium-sized businesses are more likely to be dependent on one or two persons.* Typically, the success of a small or medium-sized business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our borrower and, in turn, on us.
- *Small and medium-sized businesses may have limited operating histories.* While we intend to target stable companies with proven track records, we may make loans to new companies that meet our other investment criteria. Portfolio companies with limited operating histories will be exposed to all of the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.
- *Debt securities of small and medium-sized private companies typically are not rated by a credit rating agency.* Typically a small or medium-sized private business cannot or will not expend the resources to have their debt securities rated by a credit rating agency. We expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be at rates below what is today considered "investment grade" quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered high risk as compared to investment-grade debt instruments.

Because the loans we make and equity securities we receive when we make loans are not publicly traded, there is uncertainty regarding the value of our privately held securities that could adversely affect our determination of our net asset value ("NAV").

Our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has ultimate responsibility for reviewing and approving, in good faith, the fair value of our investments, based on the Policy. Our Board of Directors reviews valuation recommendations that are provided by the Valuation Team. In valuing our investment portfolio, several techniques are used, including, a total enterprise value approach, a yield analysis, market quotes, and independent third party assessments. Currently, Standard & Poor's Securities Evaluation, Inc. provides estimates of fair value on generally all of our debt investments and we use another independent valuation firm to provide valuation inputs for our significant equity investments, including earnings multiple ranges, as well as other information. In addition to these techniques, inputs and information, other factors are considered when determining fair value of our investments, including but limited to: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. All new and follow-on debt and equity investments made during the current three month reporting period ended March 31, 2015 were valued at original cost basis. For additional information on our valuation policies, procedures and processes, see *Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policy — Investment Valuation."*

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

Our NAV would be adversely affected if the fair value of our investments that are approved by our Board of Directors are higher than the values that we ultimately realize upon the disposal of such securities.

The lack of liquidity of our privately held investments may adversely affect our business.

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly-traded securities. The illiquidity of our investments may make it difficult for us to quickly obtain cash equal to the value at which we record our investments if the need arises. This could cause us to miss important investment opportunities. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may record substantial realized losses upon liquidation. We may also face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, the Adviser, or our respective officers, employees or affiliates have material non-public information regarding such portfolio company.

Due to the uncertainty inherent in valuing these securities, the Adviser's determinations of fair value 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.

Our financial results could be negatively affected if a significant portfolio investment fails to perform as expected.

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. Our five largest investments represented 28.8% of the fair value of our total portfolio as of March 31, 2015, compared to 32.8% as of March 31, 2014. Any disposition of a significant investment in one or more companies may negatively impact our net investment income and limit our ability to pay distributions.

We generally will not control our portfolio companies.

We do not, and do not expect to, control most of our portfolio companies, even though we may have board representation or board observation rights, and our debt agreements may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common stock, may take risks or otherwise act in ways that do not serve our interests as debt investors. Due to the lack of liquidity for our investments in non-traded companies, we may not be able to dispose of our interests in our portfolio companies as readily as we would like or at an appropriate valuation. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

We typically invest in transactions involving acquisitions, buyouts and recapitalizations of companies, which will subject us to the risks associated with change in control transactions.

Our strategy, in part, includes making debt and equity investments in companies in connection with acquisitions, buyouts and recapitalizations, which subjects us to the risks associated with change in control transactions. Change in control transactions often present a number of uncertainties. Companies undergoing change in control transactions often face challenges retaining key employees and maintaining relationships with customers and suppliers. While we hope to avoid many of these difficulties by participating in transactions where the management team is retained and by conducting thorough due diligence in advance of our decision to invest, if our portfolio companies experience one or more of these problems, we may not realize the value that we expect in connection with our investments, which would likely harm our operating results and financial condition.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

We primarily invest in secured first and second lien debt securities issued by our portfolio companies. In some cases portfolio companies will be permitted to have other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt securities may provide that the holders thereof are entitled to receive payment of interest and principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company.

Prepayments of our investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

In addition to risks associated with delays in investing our capital, we are also subject to the risk that investments we make in our portfolio companies may be repaid prior to maturity. During the fiscal year 2015, we experienced prepayments of debt investments from Cambridge Sound Management, Inc. (“CSM”), Frontier Packaging, Inc. (“Frontier”), Funko, Old World, and Star Seed, Inc. (“Star Seed”). We will first use any proceeds from prepayments to repay any borrowings outstanding on our credit facility. In the event that funds remain after repayment of our outstanding borrowings, then we will generally reinvest these proceeds in government securities, pending their future investment in new debt and/or equity securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Higher taxation of our portfolio companies may impact our quarterly and annual operating results.

The recession’s adverse effect on federal, state and municipality revenues may induce these government entities to raise various taxes to make up for lost revenues. Additional taxation may have an adverse effect on our portfolio companies’ earnings and reduce their ability to repay our loans to them, thus affecting our quarterly and annual operating results.

Our portfolio is concentrated in a limited number of companies and industries, which subjects us to an increased risk of significant loss if any one of these companies does not repay us or if the industries experience downturns.

As of March 31, 2015, we had investments in 34 portfolio companies, of which there were five investments, Counsel Press, SOG, Funko, Acme, and Old World that comprised $134.3 million, or 28.8%, of our total investment portfolio, at fair value. A consequence of a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such loans or a substantial write-down of any one investment. Beyond our regulatory and income tax diversification requirements, as well as our credit facility requirements, we do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25% of the value of our total assets. A downturn in a particular industry in which we have invested a significant portion of our total assets could have a materially adverse effect on us. As of March 31, 2015, our largest industry concentration was in Home and Office Furnishings, Housewares, and Durable Consumer Products, representing 15.1% of our total investments, at fair value.

Our investments are typically long term and will require several years to realize liquidation events.

Since we generally make five to seven year term loans and hold our loans and related warrants or other equity positions until the loans mature, you should not expect realization events, if any, to occur over the near term. In addition, we expect that any warrants or other equity positions that we receive when we make loans may require several years to appreciate in value and we cannot give any assurance that such appreciation will occur.

The disposition of our investments may result in contingent liabilities.

Currently, all of our investments involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the underlying portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

Even though we have structured most of our investments as secured first and second lien loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt investments and subordinate all, or a portion, of our claims to that of other creditors. Holders of debt instruments ranking senior to our investments typically would be entitled to receive payment in full before we receive any distributions. After repaying such senior creditors, such portfolio company may not have any remaining assets to use to repay its obligation to us. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or in instances in which we exercised control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance.

Portfolio company-related litigation could result in costs, including defense costs or damages, and the diversion of management time and resources.

In the course of investing in and often providing significant managerial assistance to certain of our portfolio companies, certain persons employed by the Adviser sometimes serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, even if meritless, we or such employees may be named as defendants in such litigation, which could result in additional costs, including defense costs, and the diversion of management time and resources. We may be unable to accurately estimate our exposure to litigation risk if we record balance sheet reserves for probable loss contingencies. As a result, any reserves we establish to cover any settlements or judgments may not be sufficient to cover our actual financial exposure, which may have a material impact on our results of operations, financial condition, or cash flows.

In view of the inherent difficulty of predicting the outcome of legal actions and regulatory matters, we cannot provide assurance as to the outcome of any threatened or pending matter or, if resolved adversely, the costs associated with any such matter, particularly where the claimant seeks very large or indeterminate damages or where the matter presents novel legal theories, involves a large number of parties or is at a preliminary stage. The resolution of any such matters may be time consuming, expensive, and may distract management from the conduct of our business. The resolution of certain threatened or pending legal actions or regulatory matters, if unfavorable, whether in settlement or a judgment, could have a material adverse effect on our financial condition, results of operations, or cash flows for the quarter in which such actions or matters are resolved or a reserve is established.

For example, a former portfolio company, Noble Logistics, Inc. ("Noble") is a defendant in employment law wage and hour and independent contractor misclassification claims in a purported class action seeking monetary damages, Maximo v. Aspen Contracting California LLC d/b/a/ Noble Logistics, et al., or Maximo. Noble is a debtor in a bankruptcy case under Chapter 11 of the federal bankruptcy code, pending in federal bankruptcy court in Delaware. The claims against Noble asserted in the Maximo case have been stayed by the filing of Noble's bankruptcy case. A lawsuit brought by plaintiffs Clarence and Sheila Walder against a customer of Noble is also pending in California based on similar facts relating to Noble and claims under California law. The Maximo and Walder plaintiffs have attempted to bring claims against the Company and other former investors in Noble based primarily on allegations that the Company and other investors controlled Noble and were responsible for the misclassification of Noble's workforce. To date, claims against the Company have been struck by a court or voluntarily dismissed by the plaintiffs in connection with the automatic stay arising in connection with the Noble bankruptcy. While neither the Company nor any of its portfolio companies (other than Noble) are currently defendants in these cases, they may in the future be subject to claims by these plaintiffs or other persons alleging similar claims, or may expend funds on behalf of Noble to defend claims.

While the Company believes it would have valid defenses to potential claims, based on the current claims and facts alleged, and intends to defend any claims vigorously, it may nevertheless expend significant amounts of money in defense costs and expenses. Further, if the Company enters into settlements or suffers an adverse outcome in any litigation, the Company could be required to pay significant amounts. In addition, if any of the Company's portfolio companies become subject to direct or indirect claims or other obligations, such as defense costs or damages in litigation or settlement, the Company's investment in such companies could diminish in value and the Company could suffer indirect losses. Further, these matters could cause the Company to expend significant management time and effort in connection with assessment and defense of any claims. No range of potential expenses, costs or damages in connection with these matters can be estimated at this time.

We may not realize gains from our equity investments and other yield enhancements.

When we make a loan, we may receive warrants to purchase stock issued by the borrower or other yield enhancements, such as success fees. Our goal is to ultimately dispose of these equity interests and realize gains upon our disposition of such interests. We expect that, over time, the gains we realize on these warrants and other yield enhancements will offset any losses we may experience on loan defaults. However, any warrants we receive may not appreciate in value and, in fact, may decline in value and any other yield enhancements, such as success fees, may not be realized. Accordingly, we may not be able to realize gains from our equity interests or other yield enhancements and any gains we do recognize may not be sufficient to offset losses we experience on our loan portfolio.

During the fiscal year ended March 31, 2015, we recorded a net realized loss of \$0.1 million related to reversal of escrows from previous investment exits. During the fiscal year ended March 31, 2014, we recorded a net realized gain of \$8.2 million primarily consisting of a \$24.8 million gain on the sale of Venyu Solutions, Inc. ("Venyu"), partially offset by realized losses of \$11.4 million and \$1.8 million related to the equity sales of Auto Safety House, LLC ("ASH") and Packerland Whey Products, Inc. ("Packerland"), respectively, and a realized loss of \$3.4 million related to the restructuring of Noble. During the fiscal year ended March 31, 2013, we recorded a realized gain of $0.8 million relating to post-closing adjustments on our previous investment exit of A. Stucki Holding Corp. ("A. Stucki"). There can be no guarantees that such realized gains can be achieved in future periods and the impact of such sales on our results of operations in prior periods should not be relied upon as being indicative of performance in future periods. For the years ended March 31, 2015, 2014 and 2013, success fees totaled $1.4 million, $4.2 million and $0.8 million, respectively.

Any cumulative unrealized depreciation we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.

As a BDC we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. We will record decreases in the market values or fair values of our investments as unrealized depreciation. Since our inception, we have, at times, incurred a cumulative net unrealized depreciation of our portfolio. Any unrealized depreciation in our investment portfolio could result in realized losses in the future and ultimately in reductions of our income available for distribution to stockholders in future periods.

The recent volatility of oil and natural gas prices could impair certain of our portfolio companies' operations and ability to satisfy obligations to their respective lenders and investors, including us, which could negatively impact our financial condition.

Many of our portfolio companies' businesses are heavily dependent upon the prices of, and demand for, oil and natural gas, which have recently declined significantly and such volatility could continue or increase in the future. A substantial or extended decline in oil and natural gas demand or prices may adversely affect the business, financial condition, cash flow, liquidity or results of operations of these portfolio companies and might impair their ability to meet capital expenditure obligations and financial commitments. A prolonged or continued decline in oil prices could therefore have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our External Financing

In addition to regulatory limitations on our ability to raise capital, our revolving line of credit contains various covenants which, if not complied with, could accelerate our repayment obligations under the facility, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.

We will have a continuing need for capital to finance our investments. As of March 31, 2015, we had $118.8 million in borrowings outstanding under our fifth amended and restated credit agreement, which provides for maximum borrowings of $185.0 million (our "Credit Facility"), with a revolving period end date of June 26, 2017 (the "Revolving Period End Date"). Our Credit Facility permits us to fund additional loans and investments as long as we are within the conditions and covenants set forth in the credit agreement. Our Credit Facility contains covenants that require our wholly-owned subsidiary, 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. Our Credit Facility also generally seeks to restrict distributions on our common stock to 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. We are also subject to certain limitations on the type of loan investments we can make, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility also requires us to comply with other financial and operational covenants, which obligate us 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 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 $202.9 million as of March 31, 2015, (ii) "asset coverage" with respect to "senior securities representing indebtedness" of at least 200%, in accordance with Section 18, as modified by Section 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 March 31, 2015 and as of the date of this filing, we were in compliance with the covenants under our Credit Facility; however, our continued compliance depends on many factors, some of which are beyond our control.

Given the continued uncertainty in the capital markets, the cumulative net unrealized depreciation in our portfolio may increase in future periods and threaten our ability to comply with the minimum net worth covenant and other covenants under our Credit Facility. Our failure to satisfy these covenants could result in foreclosure by our lenders, which would accelerate our repayment obligations under the facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders.

Any inability to renew, extend or replace our Credit Facility on terms favorable to us, or at all, could adversely impact our liquidity and ability to fund new investments or maintain distributions to our stockholders.

If our Credit Facility is not renewed or extended by the Revolving Period End Date, all principal and interest will be due and payable on or before June 26, 2017. Subject to certain terms and conditions, our Credit Facility may be expanded to a total of $250 million through the addition of other lenders to the facility. However, if additional lenders are unwilling to join the facility on its terms, we will be unable to expand the facility and thus will continue to have limited availability to finance new investments under our Credit Facility. There can be no guarantee that we will be able to renew, extend or replace our Credit Facility upon its Revolving Period End Date on terms that are favorable to us, if at all. Our ability to expand our Credit Facility, and to obtain replacement financing at or before the time of its Revolving Period End Date, will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to expand our Credit Facility, or to renew, extend or refinance our Credit Facility by the Revolving Period End Date, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

If we are unable to secure replacement financing, we may be forced to sell certain assets on disadvantageous terms, which may result in realized losses, and such realized losses could materially exceed the amount of any unrealized depreciation on these assets as of our most recent balance sheet date, which would have a material adverse effect on our results of operations. Such circumstances would also increase the likelihood that we would be required to redeem some or all of our outstanding mandatorily redeemable preferred stock, which could potentially require us to sell more assets. In addition to selling assets, or as an alternative, we may issue common equity in order to repay amounts outstanding under our Credit Facility. Based on the recent trading prices of our common stock, such an equity offering may have a substantial dilutive impact on our existing stockholders' interest in our earnings, assets and voting interest in us. If we are able to renew, extend or refinance our Credit Facility prior to maturity, renewal, extension or refinancing, it could potentially result in significantly higher interest rates and related charges and may impose significant restrictions on the use of borrowed funds to fund investments or maintain distributions to common and preferred stockholders.

Because we expect to distribute substantially all of our net investment income, at least 90%, on an annual basis, our business plan is dependent upon external financing, which is constrained by the limitations of the 1940 Act.

We completed recent equity offerings of our Series C and Series B Term Preferred Stock in May 2015 and November 2014, respectively; our Series A Term Preferred Stock in March 2012; and our common offerings in March 2015 and in October 2012, and there can be no assurance that we will be able to raise capital through issuing equity in the near future. Our business requires a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

- *Senior Securities.* We may issue senior securities representing indebtedness (including borrowings under our Credit Facility) and senior securities that are stock, such as our Series A, B, and C Term Preferred Stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a BDC, to issue senior securities representing indebtedness and senior securities which are stock (such as our mandatorily redeemable preferred stock) (collectively, our "Senior Securities"), in amounts such that our asset coverage, as defined in Section 18(h) of the 1940 Act, is at least 200% immediately after each issuance of such Senior Security. As a result of incurring indebtedness (in whatever form), we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. In addition, our ability to pay distributions, issue Senior Securities or repurchase shares of our common stock would be restricted if the asset coverage on each of our Senior Securities is not at least 200%. If the aggregate value of our assets declines, we might be unable to satisfy that 200% requirement. To satisfy the 200% asset coverage requirement in the event that we are seeking to pay a distribution, we might either have to (i) liquidate a portion of our loan portfolio to repay a portion of our indebtedness or (ii) issue common stock. This may occur at a time when a sale of a portfolio asset may be disadvantageous, or when we have limited access to capital markets on agreeable terms. In addition, any amounts that we use to service our indebtedness or for offering expenses will not be available for distributions to stockholders. Furthermore, if we have to issue common stock below NAV per common share, any non-participating stockholders will be subject to dilution, as described below. Pursuant to Section 61(a)(2) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of senior securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of Senior Securities that is stock.

- *Common and Convertible Preferred Stock.* Because we are constrained in our ability to issue debt or Senior Securities for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock, the percentage ownership of our common stockholders at the time of the issuance would decrease and our existing common stockholder may experience dilution. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below NAV per common share to purchasers, other than to our existing common stockholders through a rights offering, without first obtaining the approval of our stockholders and our independent directors. If we were to sell shares of our common stock below our then current NAV per common share, as we did in March 2015 and October 2012, such sales would result in an immediate dilution to the NAV per common share.

This dilution would occur as a result of the sale of common shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a common stockholder's interest in our earnings and assets and voting percentage than the increase in our assets resulting from such issuance. For example, if we issue and sell an additional 10% of our common stock at a 5% discount from NAV, a common stockholder who does not participate in that offering for its proportionate interest will suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV. This imposes constraints on our ability to raise capital when our common stock is trading below NAV per common share, as it generally has for the last several years. As noted above, the 1940 Act prohibits the issuance of multiple classes of senior securities that are stock. As a result, we would be prohibited from issuing convertible preferred stock to the extent that such a security was deemed to be a separate class of stock from our outstanding mandatorily redeemable preferred stock.

We financed certain of our investments with borrowed money and capital from the issuance of Senior Securities, which will magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.

The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns on our portfolio, net of expenses. The calculations in the table below are hypothetical, and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	(5)%	0%	5%	10%
Corresponding return to common stockholder(1)	(21.6)%	(12.8)%	(3.9)%	4.9%	13.8%

(1) The hypothetical return to common stockholders is calculated by multiplying our total assets as of March 31, 2015, by the assumed rates of return and subtracting all interest on our debt and dividends on our mandatorily redeemable preferred stock expected to be paid or declared during the twelve months following March 31, 2015; and then dividing the resulting difference by our total net assets attributable to Common Stock as of March 31, 2015. Based on $483.5 million in total assets, $118.8 million in debt outstanding at cost, $5.1 million in a secured borrowing, $40.0 million in aggregate liquidation preference of Series A Term Preferred Stock, $41.4 million in aggregate liquidation preference of Series B Term Preferred Stock and $273.4 million in net assets as of March 31, 2015.

Based on an aggregate outstanding indebtedness of $123.9 million at cost as of March 31, 2015, the effective annual interest rate of 4.0% as of that date, and aggregate liquidation preference of our mandatorily redeemable preferred stock of $81.4 million, our investment portfolio at fair value would have had to produce an annual return of at least 2.3% to cover annual interest payments on the outstanding debt and dividends on our mandatorily redeemable preferred stock.

A change in interest rates may adversely affect our profitability and our hedging strategy may expose us to additional risks.

We anticipate using a combination of equity and long-term and short-term borrowings to finance our investment activities. As a result, a portion of our income will depend upon the spread between the rate at which we borrow funds and the rate at which we loan these funds. An increase or decrease in interest rates could reduce the spread between the rate at which we invest and the rate at which we borrow, and thus, adversely affect our profitability, if we have not appropriately hedged against such event. Alternatively, our interest rate hedging activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio.

Ultimately, we expect approximately 90.0% of the loans in our portfolio to be at variable rates determined on the basis of the LIBOR and approximately 10.0% to be at fixed rates. As of March 31, 2015, based on the total principal balance of debt investments outstanding, our portfolio consisted of 79.9% of loans at variable rates with floors and 20.1% at fixed rates.

We currently hold one interest rate cap agreement for a notional amount of $45.0 million. While hedging activities may insulate us against adverse fluctuations in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or any future hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Our ability to receive payments pursuant to an interest rate cap agreement is linked to the ability of the counter-party to that agreement to make the required payments. To the extent that the counter-party to the agreement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the interest rate cap agreement.

Also, the fair value of certain of our debt investments is based in part on the current market yields or interest rates of similar securities. A change in interest rates could have a significant impact on our determination of the fair value of these debt investments. In addition, a change in interest rates could also have an impact on the fair value of our interest rate cap agreements that could result in the recording of unrealized appreciation or depreciation in future periods. Therefore, adverse developments resulting from changes in interest rates could have a material adverse effect on our business, financial condition and results of operations. For additional information on interest rate fluctuations, see *Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk*and *Financial Statements and Supplementary Data* for additional information on interest rate cap agreements

Risks Related to Our Regulation and Structure

We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification.

To maintain our qualification as a RIC, we must meet income source, annual distribution and asset diversification requirements. The annual distribution requirement is satisfied if we distribute at least 90% of our investment company taxable income to our stockholders on an annual basis. Because we use leverage, we are subject to certain asset coverage ratio requirements under the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we receive with respect to debt investments will create "original issue discount" ("OID"), which we must recognize as ordinary income over the term of the debt investment. Similarly, PIK interest which is accrued generally over the term of the debt investment but not paid in cash. Both OID and PIK interest will increase the amounts we are required to distribute to maintain RIC status. Because such OIDs and PIK interest will not produce distributable cash for us at the same time as we are required to make distributions, we will need to use cash from other sources to satisfy such distribution requirements. Additionally, we must meet asset diversification and income source requirements at the end of each calendar quarter. If we fail to meet these tests, we may need to quickly dispose of certain investments to prevent the loss of RIC status. Since most of our investments will be illiquid, such dispositions, if even possible, may not be made at prices advantageous to us and, in fact, may result in substantial losses. If we fail to qualify as a RIC as of a calendar quarter or annually for any reason and become fully subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount distributed. Such a failure would have a material adverse effect on us and our common stock. For additional information regarding asset coverage ratio and RIC requirements, see "*Business—Material U.S. Federal Income Tax Considerations—RIC Status*"

From time to time, some of our debt investments may include success fees that would generate payments to us if the business is ultimately sold. Because the satisfaction of these success fees, and the ultimate payment of these fees, is uncertain and highly contingent, we generally only recognize them as income when the payment is received. Success fee amounts are characterized as ordinary income for tax purposes and, as a result, we are required to distribute such amounts to our stockholders in order to maintain RIC status.

If we do not invest a sufficient portion of our assets in "qualifying assets," we could fail to qualify as a BDC under the 1940 Act or be precluded from investing according to our current business strategy.

As a BDC, we may not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets, as defined in Section 55(a) of the 1940 Act.

We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe to be attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could violate the 1940 Act provisions applicable to BDCs. As a result of such violation, specific rules under the 1940 Act could prevent us, for example, from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. If we need to dispose of such investments quickly, it could be difficult to dispose of such investments on favorable terms. We may not be able to find a buyer for such investments and, even if we do find a buyer, we may have to sell the investments at a substantial loss. Any such outcomes would have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. As a registered closed-end investment company, we would be subject to substantially more regulatory restrictions under the 1940 Act, which would significantly decrease our operating flexibility. For additional information regarding qualifying assets, see "*Business—Regulation as a BDC — Qualifying Assets.*"

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

We, and our portfolio companies, are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations, or their interpretation, or any failure by us or our portfolio companies to comply with these laws or regulations may adversely affect our business. For additional information regarding the regulations to which we are subject, see "*Business—Material U.S. Federal Income Tax Considerations— RIC Status"* and *"Business—Regulation as a BDC.*"

Provisions of the Delaware General Corporation Law and of our certificate of incorporation and bylaws could restrict a change in control and have an adverse impact on the price of our common stock.

We are subject to provisions of the Delaware General Corporation Law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for three years unless the holder's acquisition of our stock was either approved in advance by our Board of Directors or ratified by our Board of Directors and stockholders owning two-thirds of our outstanding stock not owned by the acquiring holder. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our Board of Directors, they would apply even if the offer may be considered beneficial by some stockholders.

We have also adopted other measures that may make it difficult for a third party to obtain control of us, including provisions of our certificate of incorporation classifying our Board of Directors in three classes serving staggered three-year terms, and provisions of our certificate of incorporation authorizing our Board of Directors to induce the issuance of additional shares of our stock. These provisions, as well as other provisions of our certificate of incorporation and bylaws, may delay, defer, or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

Risks Related to Our External Management

We are dependent upon our key management personnel and the key management personnel of the Adviser, particularly David Gladstone, Terry Lee Brubaker and David Dullum, and on the continued operations of the Adviser, for our future success.

We have no employees. Our chief executive officer, chief operating officer, chief financial officer and treasurer, chief valuation officer, chief accounting officer, and the employees of the Adviser, do not spend all of their time managing our activities and our investment portfolio. We are particularly dependent upon David Gladstone, Terry Lee Brubaker and David Dullum for their experience, skills, and networks. Our executive officers and the employees of the Adviser allocate some, and in some cases a material portion, of their time to businesses and activities that are not related to our business. We have no separate facilities and are completely reliant on the Adviser, which has significant discretion as to the implementation and execution of our business strategies and risk management practices. We are subject to the risk of discontinuation of the Adviser's operations or termination of the Advisory Agreement and the risk that, upon such event, no suitable replacement will be found. We believe that our success depends to a significant extent upon the Adviser and that discontinuation of its operations or the loss of its key management personnel could have a material adverse effect on our ability to achieve our investment objectives.

Our success depends on the Adviser's ability to attract and retain qualified personnel in a competitive environment.

The Adviser experiences competition in attracting and retaining qualified personnel, particularly investment professionals and senior executives, and we may be unable to maintain or grow our business if we cannot attract and retain such personnel. The Adviser's ability to attract and retain personnel with the requisite credentials, experience and skills depends on several factors including, but not limited to, its ability to offer competitive wages, benefits and professional growth opportunities. The Adviser competes with investment funds (such as private equity funds and mezzanine funds) and traditional financial services companies for qualified personnel, many of which have greater resources than us. Searches for qualified personnel may divert management's time from the operation of our business. Strain on the existing personnel resources of the Adviser, in the event that it is unable to attract experienced investment professionals and senior executives, could have a material adverse effect on our business.

We are dependent upon the contacts and relationships of the Adviser to provide us with potential investment opportunities.

We depend upon the Adviser to maintain its relationships with private equity sponsors, placement agents, investment banks, management groups and other financial institutions, and we expect to rely to a significant extent upon these relationships to provide us with potential investment opportunities. If the Adviser or members of our investment team fail to maintain such relationships, or to develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the Adviser has relationships are not obligated to provide us with investment opportunities, and we can offer no assurance that these relationships will generate investment opportunities for us in the future. Failure of the Adviser to maintain such relationships or enter into new relationships that would generate additional investment opportunities, could have a material adverse effect on our business.

The Adviser can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

The Adviser has the right to resign under the Advisory Agreement at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If the Adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our common stock may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the Adviser and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, financial condition, results of operations and cash flows.

Our incentive fee may induce the Adviser to make certain investments, including speculative investments.

The management compensation structure that has been implemented under the Advisory Agreement may cause the Adviser to invest in high-risk investments or take other investment risks. In addition to its management fee, the Adviser is entitled under the Advisory Agreement to receive incentive compensation based in part upon our achievement of specified levels of income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net investment income may lead the Adviser to place undue emphasis on the maximization of net investment income at the expense of other criteria, such as preservation of capital, maintaining sufficient liquidity, or management of credit risk or market risk, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

We may be obligated to pay the Adviser incentive compensation even if we incur a loss.

The Advisory Agreement entitles the Adviser to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our net investment income for that quarter (before deducting incentive fee, net operating losses and certain other items) above a threshold return of 1.75% for that quarter. When calculating our incentive fee, our pre-incentive fee net investment income excludes realized and unrealized losses or depreciation that we may incur in the fiscal quarter, even if such losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay the Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net realized or unrealized loss for that quarter. For additional information on incentive compensation under the Advisory Agreement with the Adviser, see "*Business — Investment Advisory and Management Agreement.*"

We may be required to pay the Adviser incentive compensation on income accrued, but not yet received in cash.

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, such as debt instruments with PIK interest. If a portfolio company defaults on a loan, it is possible that such accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a clawback right against the Adviser. During the years ended March 31, 2015, 2014 and 2013, PIK income and any other non-cash income represents less than 1% of total income for the year.

The Adviser's failure to identify and invest in securities that meet our investment criteria or perform its responsibilities under the Advisory Agreement would likely adversely affect our ability for future growth.

Our ability to achieve our investment objectives will depend on our ability to grow, which in turn will depend on the Adviser's ability to identify and invest in securities that meet our investment criteria. Accomplishing this result on a cost-effective basis will be largely a function of the Adviser's structuring of the investment process, its ability to provide competent and efficient services to us, and our access to financing on acceptable terms. The senior management team of the Adviser has substantial responsibilities under the Advisory Agreement. In order to grow, the Adviser will need to hire, train, supervise, and manage new employees successfully. Any failure to manage our future growth effectively would likely have a material adverse effect on our business, financial condition, and results of operations and cash flows.

There are significant potential conflicts of interest, including with the Adviser, which could impact our investment returns.

Our executive officers and directors, and the officers and directors of the Adviser, serve or may serve as officers, directors, or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Gladstone, our chairman and chief executive officer, is the chairman of the board and chief executive officer of the Adviser and Administrator, Gladstone Investment, Gladstone Commercial and Gladstone Land. In addition, Mr. Brubaker, our vice chairman and chief operating officer, is the vice chairman and chief operating officer of the Adviser and Administrator, Gladstone Capital, Gladstone Commercial and Gladstone Land. Mr. Dullum, our president and a director, is an executive managing director of the Adviser. Moreover, the Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with ours and accordingly may invest in, whether principally or secondarily, asset classes we target. While the Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, the Adviser has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the Gladstone affiliate with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of the Adviser may face conflicts in the allocation of investment opportunities to other entities managed by the Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other funds managed by the Adviser. Our Board of Directors approved a revision of our investment objectives and strategies that became effective on January 1, 2013, which may enhance the potential for conflicts in the allocation of investment opportunities to us and other entities managed by the Adviser.

In certain circumstances, we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, the prior approval of our Board of Directors. As of March 31, 2015, our Board of Directors has approved the following types of co-investment transactions not under the July 2012 co-invest exemption order we received from the SEC:

- Our affiliate, Gladstone Commercial, may, under certain circumstances, lease property to portfolio companies that we do not control. We may pursue such transactions only if (i) the portfolio company is not controlled by us or any of our affiliates, (ii) the portfolio company satisfies the tenant underwriting criteria of Gladstone Commercial, and (iii) the transaction is approved by a majority of our independent directors and a majority of the independent directors of Gladstone Commercial. We expect that any such negotiations between Gladstone Commercial and our portfolio companies would result in lease terms consistent with the terms that the portfolio companies would be likely to receive were they not portfolio companies of ours.
- We may invest simultaneously with our affiliate Gladstone Capital in senior loans in the broadly syndicated market whereby neither we nor any affiliate has the ability to dictate the terms of the loans.
- Additionally, pursuant to an exemptive order granted by the SEC in July 2012, under certain circumstances, we may co-invest with Gladstone Capital and any future BDC or closed-end management investment company that is advised by the Adviser (or sub-advised by the Adviser if it controls the fund) or any combination of the foregoing subject to the conditions included therein.

Certain of our officers, who are also officers of the Adviser, may from time to time serve as directors of certain of our portfolio companies. If an officer serves in such capacity with one of our portfolio companies, such officer will owe fiduciary duties to stockholders of the portfolio company, which duties may from time to time conflict with the interests of our stockholders.

In the course of our investing activities, we will pay management and incentive fees to the Adviser and will reimburse the Administrator for certain expenses it incurs. As a result, investors in our common stock will invest on a “gross” basis and receive distributions on a “net” basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through our investors themselves making direct investments. As a result of this arrangement, there may be times when the management team of the Adviser has interests that differ from those of our stockholders, giving rise to a conflict. In addition, as a BDC, we make available significant managerial assistance to our portfolio companies and provide other services to such portfolio companies. While neither we nor the Adviser currently receives fees in connection with managerial assistance, the Adviser and Gladstone Securities have, at various times, provided other services to certain of our portfolio companies and received fees for these other services.

Our business model is dependent upon developing and sustaining strong referral relationships with investment bankers, business brokers and other intermediaries and any change in our referral relationships may impact our business plan.

We are dependent upon informal relationships with investment bankers, business brokers and traditional lending institutions to provide us with deal flow. If we fail to maintain our relationship with such funds or institutions, or if we fail to establish strong referral relationships with other funds, we will not be able to grow our portfolio of investments and fully execute our business plan.

The Adviser is not obligated to provide credits of the base management fee or incentive fees, which could negatively impact our earnings and our ability to maintain our current level of distributions to our stockholders.

The Advisory Agreement provides for a base management fee, based on our gross assets, and an incentive fee, that is based on our income and capital gains. Our Board of Directors has accepted in the past and may accept in the future voluntary, unconditional and irrevocable credits to reduce the annual 2.0% base management fee or the incentive fee, on a quarterly or annual basis. Any fees credited may not be recouped by the Adviser in the future. However, the Adviser is not required to issue these or other credits of fees under the Advisory Agreement. If the Adviser does not issue these credits in the future, it could negatively impact our earnings and may compromise our ability to maintain our current level of distributions to our stockholders, which could have a material adverse impact on our common stock price.

Our base management fee may induce the Adviser to incur leverage.

The fact that our base management fee is payable based upon our gross assets, which would include any investments made with proceeds of borrowings, may encourage the Adviser to use leverage to make additional investments. Under certain circumstances, the use of increased leverage may increase the likelihood of default, which would disfavor holders of our securities. Given the subjective nature of the investment decisions made by the Adviser on our behalf, we will not be able to monitor this potential conflict of interest.

Risks Related to an Investment in Our Securities

We may experience fluctuations in our quarterly and annual operating results.

We may experience fluctuations in our quarterly and annual operating results due to a number of factors, including, among others, variations in our investment income, the interest rates payable on the debt securities we acquire, the default rates on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, placing and removing investments on non-accrual status, the degree to which we encounter competition in our markets, the ability to sell investments at attractive terms, the ability to fund and close suitable investments, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions, including the impacts of inflation. The majority of our portfolio companies are in industries that are directly impacted by inflation, such as manufacturing and consumer goods and services. Our portfolio companies may not be able to pass on to customers increases in their costs of production which could greatly affect their operating results, impacting their ability to repay our loans. In addition, any projected future decreases in our portfolio companies' operating results due to inflation could adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future realized and unrealized losses and therefore reduce our net assets resulting from operations. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

There is a risk that you may not receive distributions or that distributions may not grow over time.

Our current intention is to distribute at least 90% of our investment company taxable income to our common stockholders on a quarterly basis by paying monthly common distributions. We expect to retain some or all net realized long-term capital gains by first offsetting them with realized capital losses, and, secondly, through a "deemed distribution" to supplement our equity capital and support the growth of our portfolio, although our Board of Directors may determine in certain cases to distribute these gains to our common stockholders. In addition, our Credit Facility restricts the amount of distributions we are permitted to make annually. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions.

Investing in our securities may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and a higher risk of volatility or loss of principal. Our investments in portfolio companies may be highly speculative, and therefore, an investment in our common stock may not be suitable for someone with lower risk tolerance.

Distributions to our common stockholders have included and may in the future include a return of capital.

Our Board of Directors declares monthly common distributions each quarter based on the respective quarter's estimates of investment company taxable income for each fiscal year, which may differ, and in the past have differed, from actual results. Because our common distributions are based on estimates of investment company taxable income that may differ from actual results, future common distributions payable to our common stockholders may also include a return of capital. Moreover, to the extent that we distribute amounts that exceed our accumulated earnings and profits, these distributions constitute a return of capital. A return of capital represents a return of a common stockholder's original investment in common shares of our stock and should not be confused with a distribution from earnings and profits. Although return of capital distributions may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the sale of our common stock by reducing the investor's tax basis for such common stock. Such returns of capital reduce our asset base and also adversely impact our ability to raise debt capital as a result of the leverage restrictions under the 1940 Act, which could have a material adverse impact on our ability to make new investments.

The market price of our shares may fluctuate significantly.

The trading price of our common stock and our preferred stock may fluctuate substantially. Due to the volatility and disruptions that have affected the capital and credit markets over the past few years, our stock has experienced greater than usual price volatility.

The market price and marketability of our shares may from time to time be significantly affected by numerous factors, including many over which we have no control and that may not be directly related to us. These factors include, but are not limited to, the following:

- general economic trends and other external factors, such as inflation, oil and gas prices, GDP growth;
- price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;
- significant volatility in the market price and trading volume of shares of RICs, BDCs or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- changes in stock index definitions or policies, which may impact an investor's desire to hold shares of BDCs;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or BDCs;
- loss of BDC status;
- loss of RIC status;
- changes in our earnings or variations in our operating results;
- changes and perceived projected changes in prevailing interest rates;
- changes in the value of our portfolio of investments;
- any shortfall in our revenue or net income or any increase in losses from levels expected by securities analysts;
- departure of key personnel;
- operating performance of companies comparable to us;
- short-selling pressure with respect to our shares or BDCs generally;
- the announcement of proposed, or completed, offerings of our securities, including a rights offering; and
- loss of a major funding source.

Fluctuations in the trading prices of our shares may adversely affect the liquidity of the trading market for our shares and, if we seek to raise capital through future equity financings, our ability to raise such equity capital.

Common shares of closed-end investment companies frequently trade at a discount from NAV.

Shares of closed-end investment companies frequently trade at a discount from NAV per common share. Since our inception, our common stock has at times traded above NAV, and at times below NAV. During the past year, our common stock has often, and at times significantly, traded below NAV. Subsequent to March 31, 2015, our common stock has traded at discounts of up to 19.9% of our NAV per share, which was $9.18 as of March 31, 2015. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our NAV per share will decline. As with any stock, the price of our common shares will fluctuate with market conditions and other factors. If common shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of our common shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the common shares will trade at, below or above our NAV. Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below NAV per share to purchasers other than our existing common stockholders through a rights offering without first obtaining the approval of our stockholders and our independent directors. Additionally, at times when our common stock is trading below its NAV per share, our dividend yield may exceed the weighted average returns that we would expect to realize on new investments that would be made with the proceeds from the sale of such stock, making it unlikely that we would determine to issue additional common shares in such circumstances. Thus, for as long as our common stock may trade below NAV we will be subject to significant constraints on our ability to raise capital through the issuance of common stock. Additionally, an extended period of time in which we are unable to raise capital may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

Common stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current NAV per share.

At our most recent annual meeting of stockholders on August 7, 2014, our stockholders approved a proposal designed to allow us to sell shares of our common stock below the then current NAV per share in one or more offerings for a period of one year from the date of such approval, subject to certain conditions (including, but not limited to, that the number of common shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale).

We exercised this right with Board of Director approval in March 2015, when we completed a public offering of 3.3 million shares of our common stock at a public offering price of $7.40 per share, which was below our then current NAV of $8.55 per share. Gross proceeds totaled approximately $24.4 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately $23.0 million. The net dilutive effect of the issuance of common stock, net of expenses, below NAV was $0.22 per share of common stock.

We previously exercised this right with our Board of Director’s approval in October 2012, when we completed a public offering of 4.4 million shares of our common stock at a public offering price of $7.50 per share, which was below our then current NAV of $8.65 per share. Gross proceeds totaled approximately $33.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately $31.0 million. The net dilutive effect of the issuance of common stock, net of expenses, below NAV was $0.31 per share of common stock.

At the upcoming annual stockholders meeting scheduled for August 6, 2015, we expect that our stockholders will again be asked to vote in favor of renewing this proposal for another year. During the past year, our common stock has traded consistently, and at times significantly, below NAV. Any decision to sell shares of our common stock below the then current NAV per share of our common stock would be subject to the determination by our Board of Directors that such issuance is in our and our stockholders’ best interests.

If we were to sell shares of our common stock below NAV per share, such sales would result in an immediate dilution to the NAV per share. This dilution would occur as a result of the sale of shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a common stockholder’s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. The greater the difference between the sale price and the NAV per share at the time of the offering, the more significant the dilutive impact would be. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect, if any, cannot be currently predicted. However, if, for example, we sold an additional 10% of our common stock at a 5% discount from NAV, an existing common stockholder who did not participate in that offering for its proportionate interest would suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV.

If we fail to pay dividends on our mandatorily redeemable preferred stock for two years, the holders of our preferred stock will be entitled to elect a majority of our directors.

The terms of our three series of mandatorily redeemable preferred stock provide for annual dividends of $1.78125, $1.68750, and $1.62500 per outstanding share of our Series A Term Preferred Stock, Series B Term Preferred Stock and Series C Term Preferred Stock, respectively. In accordance with the terms of each of our three series of mandatorily redeemable term preferred stock, if dividends thereon are unpaid in an amount equal to at least two years of dividends, the holders of such series of stock will be entitled to elect a majority of our Board of Directors.

Other Risks

Market volatility and the condition of the debt and equity capital markets could negatively impact our financial condition and stock price.

Beginning in the third quarter of 2007, global credit and other financial markets began to suffer substantial stress, volatility, illiquidity and disruption. These forces reached extraordinary levels in late 2008, resulting in the bankruptcy of, the acquisition of, or government intervention in the affairs of several major domestic and international financial institutions. In particular, the financial services sector was negatively impacted by significant write-offs as the value of the assets held by financial firms declined, impairing their capital positions and abilities to lend and invest. We believe that such value declines were exacerbated by widespread forced liquidations as leveraged holders of financial assets, faced with declining prices, were compelled to sell to meet margin requirements and maintain compliance with applicable capital standards. Such forced liquidations also impaired or eliminated many investors and investment vehicles, leading to a decline in the supply of capital for investment and depressed pricing levels for many assets. These events significantly diminished overall confidence in the debt and equity markets, engendered unprecedented declines in the values of certain assets, and caused extreme economic uncertainty. If market conditions similar to these were to recur, our assets could experience a similar decline in value, among other negative impacts we could suffer.

Since March 2009, the global credit and other financial market conditions have improved as stability has increased throughout the international financial system and, specifically, in the U.S. economy in which we operate, and many public market indices have experienced positive total returns. However, the macroeconomic environment and recovery from the downturn has been challenging and inconsistent. Instability in the credit markets, the impact of periodic uncertainty regarding the U.S. federal budget, tapering of bond purchases by the U.S. Federal Reserve and debt ceiling, the instability in the geopolitical environment in many parts of the world, sovereign debt conditions in Europe and other disruptions may continue to put pressure on economic conditions in the U.S. and abroad, all of which can have an adverse effect on our business.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic downturns or recessions and may be unable to repay our loans during these periods. Therefore, during these periods our non-performing assets may increase and the value of these assets may decrease. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in investment income, net investment income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results. We experienced to some extent such effects as a result of the economic downturn that occurred from 2008 through 2009 and may experience such effects again in any future downturn or recession.

We could face losses and potential liability if intrusion, viruses or similar disruptions to our technology jeopardize our confidential information, whether through breach of our network security or otherwise.

Maintaining our network security is of critical importance because our systems store highly confidential financial models and portfolio company information. Although we have implemented, and will continue to implement and upgrade, security measures, our technology platform is and will continue to be vulnerable to intrusion, computer viruses or similar disruptive problems caused by transmission from unauthorized users. The misappropriation of proprietary information could expose us to a risk of loss or litigation.

Terrorist attacks, acts of war, or national disasters may affect any market for our stock, impact the businesses in which we invest, and harm our business, operating results, and financial conditions.

Terrorist acts, acts of war, or national disasters have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or national disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results, and financial condition. Losses from terrorist attacks and national disasters are generally uninsurable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We do not own any real estate or other physical properties material to our operations. The Adviser is the current leaseholder of all properties in which we operate. We occupy these premises pursuant to our Advisory and Administration Agreements with the Adviser and Administrator, respectively. The Adviser and Administrator are both headquartered in McLean, Virginia, a suburb of Washington, D.C., and the Adviser also has offices in several other states.

ITEM 3. 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. See *"Risk Factors—Portfolio company-related litigation could result in costs, including defense costs or damages, and the diversion of management time and resources."* 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on NASDAQ Global Select Market ("NASDAQ") under the symbol "GAIN." The following table reflects, by quarter, the high and low intraday sales prices per share of our common stock on the NASDAQ, the intraday sales prices as a percentage of NAV and quarterly distributions declared per common share for each fiscal quarter during the last two fiscal years. Amounts presented for each fiscal quarter of 2015 and 2014 represent the cumulative amount of the distributions declared per common share for the months composing such quarter.

	Quarter Ended	NAV(A)	Sales Prices High	Sales Prices Low	Discount / (Premium) of High to NAV(B)	Discount of Low to NAV(B)	Declared Common Stock Distributions
FY 2015	**6/30/2014**	**$ 8.57**	**$8.39**	**$7.23**	**2.1%**	**15.6%**	**$ 0.18**
	9/30/2014	**8.49**	**7.77**	**7.08**	**8.5**	**16.6**	**0.18**
	12/31/2014	**8.55**	**7.50**	**6.72**	**12.3**	**21.4**	**0.23**
	3/31/2015	**9.18**	**8.04**	**6.98**	**12.4**	**24.0**	**0.18**
FY 2014	6/30/2013	$ 8.70	$7.52	$7.02	13.6%	19.3%	$ 0.15
	9/30/2013	9.12	7.57	6.80	17.0	25.4	0.15
	12/31/2013	8.49	8.06	6.80	5.1	19.9	0.23
	3/31/2014	8.34	8.50	7.35	(1.9)	11.9	0.18

(A) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low intraday sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(B) The discounts (premiums) set forth in these columns represent the high or low, as applicable, sale prices per share for the relevant quarter minus the NAV per share as of the end of such quarter, and therefore may not reflect the premium or discount to NAV per share on the date of the high and low intraday sales prices.

As of May 19, 2015, there were 22 record owners of our common stock. This number does not include stockholders for whom shares are held in "street name."

Distributions

We currently intend to distribute in the form of cash distributions a minimum of 90% of our investment company taxable income, if any, on a quarterly basis to our stockholders in the form of monthly distributions. We intend to retain some or all of our long-term capital gains, if any, but to designate the retained amount as a deemed distribution, after giving effect to any prior year realized losses that are carried forward, to supplement our equity capital and support the growth of our portfolio. However, in certain cases our Board of Directors may choose to distribute our net realized long-term capital gains by paying a one-time, special common distribution.

Our Credit Facility also generally seeks to restrict distributions on our common stock to 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.

Recent Sales of Unregistered Securities and Purchases of Equity Securities

We did not sell any unregistered shares of stock, nor repurchase any of our shares of stock during the fiscal year ended March 31, 2015.

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ITEM 6. SELECTED FINANCIAL DATA

The following consolidated selected financial data as of and for the fiscal years ended March 31, 2015, 2014, 2013, 2012, and 2011, are derived from our audited accompanying *Consolidated Financial Statements*. The other data included in the second table below is unaudited. The data should be read in conjunction with our audited accompanying *Consolidated Financial Statements* and notes thereto and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" included elsewhere in this report.

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SELECTED FINANCIAL AND OTHER DATA
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AND PER UNIT DATA)

	Year Ended March 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Statement of Operations Data:					
Total investment income	**$ 41,643**	$ 36,264	$ 30,538	$ 21,242	$ 26,064
Total expenses net of credits from Adviser	**21,746**	16,957	14,050	7,499	9,893
Net investment income	**19,897**	19,307	16,488	13,743	16,171
Net gain (loss) on investments	**30,317**	(20,636)	791	8,223	268
Net increase (decrease) in net assets resulting from operations	**$ 50,214**	$ (1,329)	$ 17,279	$ 21,966	$ 16,439
Per Common Share Data:					
Net increase (decrease) in net assets resulting from operations per common share—basic and diluted(A)	**$ 1.88**	$ (0.05)	$ 0.71	$ 0.99	$ 0.74
Net investment income before net gain (loss) on investments per common share—basic and diluted(A)	**0.75**	0.73	0.68	0.62	0.73
Cash distributions declared per common share	**0.77**	0.71	0.60	0.61	0.48
Statement of Assets and Liabilities Data:					
Total assets	**$ 483,521**	$ 330,694	$ 379,803	$ 325,297	$ 241,109
Net assets	**273,429**	220,837	240,963	198,829	198,829
Net asset value per common share	**9.18**	8.34	9.10	9.00	9.00
Common shares outstanding	**29,775,958**	26,475,958	26,475,958	22,080,133	22,080,133
Weighted common shares outstanding—basic and diluted	**26,665,821**	26,475,958	24,189,148	22,080,133	22,080,133
Senior Securities Data(B):					
Total borrowings, at cost(C)	**$ 123,896**	$ 66,250	$ 94,016	$ 76,005	$ 40,000
Mandatorily redeemable preferred stock	**81,400**	40,000	40,000	40,000	—
Asset coverage ratio(B)	**230%**	298%	272%	268%	534%
Asset coverage per unit(D)	**$ 2,301**	$ 2,978	$ 2,725	$ 2,676	$ 5,344

(A) Per share data is based on the weighted average common stock outstanding for both basic and diluted.
(B) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200% on our Senior Securities. Our mandatorily redeemable preferred stock is a Senior Security that is stock.
(C) Includes borrowings under our Credit Facility, other secured borrowings, and short-term loans, as applicable.
(D) Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

	Year Ended March 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Other Unaudited Data:					
Number of portfolio companies	**34**	29	21	17	17
Average size of portfolio company investment at cost	**$ 14,861**	$ 13,225	$15,544	$15,670	$11,600
Principal amount of new investments	**108,197**	132,291	87,607	91,298	43,634
Proceeds from loan repayments and investments sold	**11,259**	83,415	28,424	27,185	97,491
Weighted average yield on investments(A)	**12.60%**	12.61%	12.51%	12.32%	11.36%
Total return(B)	**11.96**	24.26	4.73	5.58	38.56

(A) Weighted average yield on investments equals interest income earned on investments divided by the weighted average interest-bearing principal balance throughout the fiscal year.
(B) Total return equals the change in the ending market value of our common stock from the beginning of the fiscal year, taking into account common dividends reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account common 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* elsewhere in this Annual Report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Annual Report on Form 10-K. Historical financial condition and results of operations and percentage relationships among any amounts in the financial statements are not necessarily indicative of financial condition, results of operations or percentage relationships for any future periods. Except per share amounts, dollar amounts in the tables included herein are in thousands unless otherwise indicated.

OVERVIEW

General

We were incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005. 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"). In order 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 United States ("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 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 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 each investment generally ranging from $5 million to $30 million, although investment size may vary, 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 March 31, 2015, our investment portfolio was made up of 73% in debt securities and 27% in equity securities, at cost.

We focus on investing in small and medium-sized private businesses in the United States ("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. If we are participating in an investment with one or more co-investors, our investment is likely to be smaller than if we were investing alone.

In July 2012, the Securities and Exchange Commission ("SEC") granted us an exemptive 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 believe this ability to co-invest has enhanced and will continue to enhance our ability to further our investment objectives and strategies.

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (based on the one-month London Interbank Offered Rate ("LIBOR")) and, to a lesser extent, at fixed rates. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, and which may include a yield enhancement such as a success fee or deferred interest provision and are primarily interest only with all principal and any accrued but unpaid interest due at maturity. Generally, success fees accrue at a set rate and are contractually due upon a change of control of the business. Some debt securities have deferred interest whereby some portion of the interest payment is added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called PIK interest.

Typically, our investments in equity securities take the form of common stock, preferred stock, limited liability company interests, or warrants or options to purchase the foregoing. Often, these equity investments occur in connection with our original investment, buyouts and recapitalizations of a business, or refinancing existing debt.

We are externally managed by our investment advisor, Gladstone Management Corporation (the “Adviser”), a SEC registered investment adviser and an affiliate of ours, pursuant to the Advisory Agreement. The Adviser manages our investment activities. We have also entered into an administration agreement (the “Administration Agreement”) with Gladstone Administration, LLC (our “Administrator”), an affiliate of ours and the Adviser, whereby we pay separately for administrative services.

Our shares of common stock, 7.125% Series A Cumulative Term Preferred Stock (“Series A Term Preferred Stock”), 6.75% Series B Cumulative Term Preferred Stock (“Series B Term Preferred Stock”), and 6.50% Series C Cumulative Term Preferred Stock (“Series C Term Preferred Stock”) are traded on the NASDAQ Global Select Market (“NASDAQ”) under the trading symbols “GAIN,” “GAINP,” “GAINO,” and “GAINN,” respectively.

Business

Portfolio Activity

While conditions remain challenging, we are seeing many 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. For the fiscal year ended March 31, 2015, we invested a total of $108.2 million in six new deals, resulting in a net expansion in our overall portfolio to 34 portfolio companies and an increase year over year of 28.2% in our portfolio at cost. These new investments, along with our capital raising efforts discussed below, have allowed us to invest $419.0 million in 25 new debt and equity deals since October 2010. For the fiscal year ended March 31, 2015, our new investments consisted of approximately 78.3% senior and subordinated secured term loans and 21.7% equity investments, based on the originating principal balances, respectively.

Generally, the majority of our debt securities in our portfolio, have a success fee component, which enhances the yield on our debt investments. Unlike PIK income, we generally do not recognize success fees as income until they are received in cash. Due to their contingent nature, 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 March 31, 2015, we had unrecognized success fees of $24.3 million, or $0.82 per common share. Consistent with accounting principles generally accepted in the U.S. (“GAAP”), we generally have not recognized our success fee receivable and related income in our accompanying *Consolidated Financial Statements.*

The improved investing environment has presented us with an opportunity to realize gains and other income from four management-supported buyout liquidity events since June 2010, and in the aggregate, these four liquidity events have generated $54.4 million in realized gains and $13.1 million in other income, for a total increase to our net assets of $67.5 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. With the four liquidity events that resulted in realized gains since June 2010, we have nearly overcome our cumulative realized losses since inception that were primarily incurred during the recession and in connection with the sale of performing loans at a realized loss to pay off a former lender. These successful exits, in part, enabled us to increase the monthly distribution 50.0% since March 2011 and allowed us to declare and pay a special distribution of $0.03 per common share in fiscal year 2012, $0.05 per common share in November 2013, and $0.05 per common share in December 2014.

Capital Raising Efforts

Despite the challenges that have existed in the economy for the past several years, we have been able to meet our capital needs through extensions and increases to our revolving line of credit and by accessing the capital markets in the form of public offerings of 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 total commitment of $250.0 million through additional commitments of new or existing lenders). Additionally, we issued approximately 1.7 million shares of our Series B Term Preferred Stock for gross proceeds of $41.4 million in November 2014, approximately 3.8 million shares of common stock for gross proceeds of $28.1 million in March and April 2015, and approximately 1.6 million shares of our Series C Term Preferred Stock for gross proceeds of $40.3 million in May 2015. 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 term 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 during 2014 and 2015, 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 equity. On May 19, 2015, the closing market price of our common stock was $7.54, which represented a 17.9% discount to our March 31, 2015 net asset value ("NAV") per share of $9.18. When our common stock trades below NAV, our ability to issue 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 2014 Annual Meeting of Stockholders held on August 7, 2014, 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 common 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 2014 stockholder authorization is in effect for one year from the date of stockholder approval. With our Board of Directors' subsequent approval, we issued shares of our common stock in March and April 2015 at a price per share below the then current NAV per share. We sought and obtained stockholder approval concerning a similar proposal at the Annual Meeting of Stockholders held in August 2012, and with our Board of Directors' subsequent approval, we issued shares of our common stock in October and November 2012 at a price per share below the then current NAV per share. 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.

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 Section 18(h) of the 1940 Act), of at least 200% on our senior securities representing indebtedness and our senior securities that are stock (collectively the "Senior Securities"). As of March 31, 2015, our asset coverage ratio was 229.9%.

Investment Highlights

For the fiscal year ended March 31, 2015, we disbursed $108.2 million in new debt and equity investments and extended $24.7 million of investments to existing portfolio companies through revolver draws or additions to term notes. From our initial public offering in June 2005 through March 31, 2015, we have made 237 investments in 113 companies for a total of approximately $1.1 billion, before giving effect to principal repayments on investments and divestitures.

Investment Activity

During the fiscal year ended March 31, 2015, the following significant transactions occurred:

- In May 2014, NDLI, Inc. ("NDLI"), one of our portfolio companies, completed the purchase of certain of Noble Logistics, Inc.'s assets, one of our other portfolio companies, out of bankruptcy.

- In August 2014, we made a $1.8 million equity investment in Roanoke Industries Corp. ("Roanoke"), formerly known as Tread Real Estate Corp., which purchased the building owned by another one of our portfolio companies, Tread Corporation ("Tread"). This building has subsequently been leased back to Tread.
- In September 2014, we invested $20.2 million in Cambridge Sound Management, Inc. ("Cambridge") through a combination of secured debt and equity. Cambridge, based in Waltham, Massachusetts, is the developer of sound systems and solutions.
- In October 2014, we invested $24.4 million in Old World through a combination of secured debt and equity. Old World, headquartered in Spokane, Washington, is a designer and distributor of an extensive collection of blown glass Christmas ornaments, table top figurines, vintage-style light covers and nostalgic greeting cards into the independent gift channel.
- In December 2014, we invested $19.6 million in B+T Group Acquisition Inc. ("B+T") through a combination of secured debt and equity. B+T, headquartered in Tulsa, Oklahoma, is a full-service provider of structural engineering, construction, and technical services to the wireless tower industry for tower upgrades and modifications. Gladstone Capital also participated as a co-investor by providing $8.4 million of debt and equity financing at the same price and terms as our investment.
- In December 2014, B-Dry, LLC ("B-Dry") was restructured, resulting in $2.0 million of secured debt being converted into preferred equity.
- In March 2015, we invested $10.8 million in Logo Sportswear, Inc. ("Logo") through a combination of secured debt and equity. Logo, headquartered in Cheshire, Connecticut, is an online provider of user-customized uniforms and apparel for teams, leagues, schools, businesses and organizations.
- In March 2015, we invested $32.0 million in Counsel Press, Inc. ("Counsel Press") through a combination of secured debt and equity. Counsel Press, headquartered in New York, New York, provides expert assistance in preparing, filing, and serving appeals in state and federal appellate courts nationwide and several international tribunals.

Recent Developments

Registration Statement

On June 3, 2014, we filed Post-Effective Amendment No. 3 to the registration statement on Form N-2 (File No. 333-181879), and subsequently filed a Post-Effective Amendment No. 4 to the registration statement on September 2, 2014, which the SEC declared effective on September 4, 2014. 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 a combined offering of two or more of such securities. We currently have the ability to issue up to $117.3 million in securities under the registration statement.

Credit Facility Extension and Expansion

In June 2014, we, through our wholly-owned subsidiary, Gladstone Business Investment ("Business Investment"), entered into Amendment No. 1 to the Fifth Amended and Restated Credit Agreement originally entered into on April 30, 2013, with Key Equipment Finance, a division of KeyBank National Association ("KeyBank") as administrative agent, lead arranger and 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 14 months to June 26, 2017. We incurred fees of $0.4 million in connection with this amendment, which are being amortized through our Credit Facility's revolver period end date of June 26, 2017.

In September 2014, we further increased our borrowing capacity under our Credit Facility from $105.0 million to $185.0 million (with a total commitment up to $250.0 million through additional commitments of new or existing lenders) 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, which are being amortized through our Credit Facility's revolver period end date of June 26, 2017. Refer to "*Liquidity and Capital Resources — Revolving Credit Facility*" for further discussion of our Credit Facility

Term Preferred Stock Offerings

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 expenses borne by us, were approximately $39.7 million.

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 expenses borne by us, were approximately $38.6 million. Refer to "*Liquidity and Capital Resources — Equity — Term Preferred Stock*" for further discussion of our recently issued mandatorily redeemable preferred stock.

Executive Officers

On January 9, 2015, David Watson resigned as the Company's chief financial officer and treasurer. On January, 13, 2015, our Board of Directors accepted Mr. Watson's resignation and appointed Melissa Morrison, Gladstone Capital's chief financial officer and treasurer, as the Company's chief financial officer and treasurer. On April 14, 2015, our Board of Directors appointed Julia Ryan as the Company's chief accounting officer.

Common Stock Offering

In March 2015, we completed a public offering of 3.3 million shares of our common stock. Gross proceeds totaled $24.4 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately $23.0 million. In April 2015, the underwriters fully exercised their overallotment option to purchase approximately 0.5 million additional shares of our common stock, resulting in net proceeds, after deducting underwriting discounts and offering expenses borne by us, of approximately $3.5 million. Refer to "*Liquidity and Capital Resources — Equity — Common Stock*" for further discussion of our common stock.

RESULTS OF OPERATIONS

Comparison of the Fiscal Year Ended March 31, 2015, to the Fiscal Year Ended March 31, 2014

	For the Fiscal Years Ended March 31,			
	2015	2014	$ Change	% Change
INVESTMENT INCOME				
Interest income	**$36,685**	$ 30,460	$ 6,225	20.4%
Other income	**4,958**	5,804	(846)	(14.6)
Total investment income	**41,643**	36,264	5,379	14.8
EXPENSES				
Base management fee	**7,569**	6,207	1,362	21.9
Loan servicing fee	**4,994**	4,326	668	15.4
Incentive fee	**4,975**	3,983	992	24.9
Administration fee	**932**	863	69	8.0
Interest and dividend expense	**7,460**	4,925	2,535	51.5
Amortization of deferred financing costs	**1,329**	1,024	305	29.8
Other	**2,329**	2,264	65	2.9
Total expenses before credits from Adviser	**29,588**	23,592	5,996	25.4
Credits to fees from Adviser	**(7,842)**	(6,635)	(1,207)	(18.2)
Total expenses, net of credits to fees	**21,746**	16,957	4,789	28.2
NET INVESTMENT INCOME	**19,897**	19,307	590	3.1
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized (loss) gain on investments	**(73)**	8,241	(8,314)	(100.9)
Net realized loss on other	**—**	(29)	29	100.0
Net unrealized appreciation (depreciation) of investments	**29,940**	(29,206)	59,146	NM
Net unrealized depreciation of other	**450**	358	92	25.7
Net realized and unrealized gain (loss) on investments and other	**30,317**	(20,636)	50,953	NM
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	**$50,214**	$ (1,329)	$ 51,543	NM
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	**$ 0.75**	$ 0.73	$ 0.02	2.7%
Net increase (decrease) in net assets resulting from operations	**$ 1.88**	$ (0.05)	$ 1.93	NM

NM = Not Meaningful

Investment Income

Total investment income increased by 14.8% for the year ended March 31, 2015, as compared to the prior year. This increase was due to an increase in interest income, which resulted primarily from an increase in the size of our portfolio during the year ended March 31, 2015, partially offset by a decline in other income for the same period. This decline in other income was primarily a result of success fees and dividend income related to the exit of Venyu, which were recorded during the year ended March 31, 2014, but did not recur in the year ended March 31, 2015.

Interest income from our investments in debt securities increased 20.4% for the year ended March 31, 2015, as compared to the prior year. 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 year ended March 31, 2015, was approximately $292.2 million, compared to approximately $241.5 million for the prior year. This increase was primarily due to approximately $84.7 million in new debt investments originated after March 31, 2014, including Roanoke, Cambridge, Old World, B+T, Logo, and Counsel Press.

At March 31, 2015, the loans of one portfolio company, Tread, were on non-accrual status, with an aggregate weighted average principal balance of $11.6 million during the year ended March 31, 2015. These loans had an aggregate weighted average principal balance of $11.9 million during the year ended March 31, 2014. The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as other income, was 12.6% for both years ended March 31, 2015 and 2014. 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 year ended March 31, 2015 decreased 14.6% from the prior year. During the year ended March 31, 2015, other income primarily consisted of $2.6 million and $0.6 million of dividend income received from Mathey Investments, Inc. ("Mathey") and Drew Foam Company, Inc. ("Drew Foam"), respectively, and $0.5 million resulting from prepaid success fees received from SOG Specialty Knives and Tools, LLC ("SOG"). During the year ended March 31, 2014, other income primarily consisted of a combined $3.3 million in success fee and dividend income received in connection with the exit of Venyu, $0.8 million and $0.2 million in success and prepayment fees resulting from payoffs from Channel Technologies Group, LLC ("Channel") and Cavert II Holding Corp. ("Cavert"), respectively, and SOG's and Frontier Packaging, Inc.'s ("Frontier's") elections to prepay success fees of $0.5 million and $0.2 million, respectively.

The following table lists the investment income for our five largest portfolio company investments at fair value during the respective fiscal years:

	As of March 31, 2015		Year Ended March 31, 2015	
Company	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
Counsel Press, Inc. (A)	$ 31,995	6.9%	$ 9	0.0%
SOG Specialty Knives & Tools, LLC	31,851	6.8	2,657	6.4
Funko, LLC	25,008	5.4	991	2.4
Acme Cryogenics, Inc.	23,019	4.9	1,691	4.1
Old World Christmas, Inc. (A)	22,427	4.8	1,060	2.5
Subtotal—five largest investments	**134,300**	**28.8**	**6,408**	**15.4**
Other portfolio companies	331,753	71.2	35,235	84.6
Total investment portfolio	**$466,053**	**100.0%**	**$ 41,643**	**100.0%**

	As of March 31, 2014		Year Ended March 31, 2014	
Company	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
SOG Specialty Knives and Tools, LLC	$ 26,639	8.5%	$ 3,157	8.7%
Acme Cryogenics, Inc.	25,776	8.2	1,691	4.7
Galaxy Tool Holding, Inc.	18,512	5.9	2,124	5.9
Ginsey Home Solutions, Inc.	16,132	5.1	1,786	4.9
Edge Adhesives Holdings, Inc. (A)	15,969	5.1	142	0.4
Subtotal—five largest investments	**103,028**	**32.8**	**8,900**	**24.6**
Other portfolio companies	211,365	67.2	27,364	75.4
Total investment portfolio	**$314,393**	**100.0%**	**$ 36,264**	**100.0%**

(A) New investment during the applicable year.

Expenses

Total expenses, net of any voluntary, irrevocable and non-contractual credits from the Adviser, increased 28.2% for the year ended March 31, 2015, as compared to the prior year period, primarily due to an increase in the net base management fee, incentive fee and interest and dividend expense, as compared to the prior year.

The net base management fee increased for the fiscal year ended March 31, 2015, as compared to the prior year period, as a result of the increased size of our portfolio over the respective periods. An incentive fee of $5.0 million was earned by the Adviser during the fiscal year ended March 31, 2015, compared to an incentive fee of $4.0 million for the prior year.

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

	Year Ended March 31,	
	2015	**2014**
Average total assets subject to base management fee(A)	**$378,450**	$310,350
Multiplied by annual base management fee of 2%	**2.0%**	2.0%
Base management fee(B)	**7,569**	6,207
Credits to fees from Adviser—other(B)	**(2,848)**	(2,309)
Net base management fee	**$ 4,721**	**$ 3,898**
Loan servicing fee(B)	**4,994**	4,326
Credits to base management fee — loan servicing fee(B)	**(4,994)**	(4,326)
Net loan servicing fee	**$ —**	**$ —**
Incentive fee(B)	**4,975**	3,983
Credits to fees from Adviser — other(B)	**—**	—
Net incentive fee	**$ 4,975**	$ 3,983

(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 Statement of Operations*.

Interest and dividend expense increased 51.5% for the year ended March 31, 2015, as compared to the prior year, primarily due to increased average borrowings under our Credit Facility. The weighted average balance outstanding on our Credit Facility during the fiscal year ended March 31, 2015, was $79.2 million, as compared to $34.6 million in the prior year. The increase in average borrowings under our Credit Facility was partially offset by a decrease in the interest rate due to an amendment of our Credit Facility that occurred in June 2014. Dividends on mandatorily redeemable preferred stock increased as a result of the issuance of $41.4 million of our Series B Term Preferred Stock in November 2014.

Realized and Unrealized Gain (Loss)

Realized Gain (Loss) on Investments

During the year ended March 31, 2015, we recorded minimal realized activity. During the year ended March 31, 2014, we recorded a net realized gain of $8.2 million consisting of a $24.8 million gain on the Venyu sale, partially offset by realized losses of $11.4 million and $1.8 million related to the equity sales of ASH and Packerland, respectively, and realized losses of $3.4 million related to the restructuring of Noble.

Net Unrealized Appreciation (Depreciation) of Investments

During the year ended March 31, 2015, we recorded net unrealized appreciation of investments in the aggregate amount of $29.9 million.

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The realized loss and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2015, were as follows:

	Twelve Months Ended March 31, 2015			
Portfolio Company	Realized Loss	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Funko, LLC	$ —	$ 13,090	$ —	$13,090
SOG Specialty Knives & Tools, LLC	—	5,211	—	5,211
Drew Foam Company, Inc.	—	4,994	—	4,994
Jackrabbit, Inc.	—	4,575	—	4,575
NDLI Inc.	—	4,397	—	4,397
Ginsey Home Solutions, Inc.	—	3,904	—	3,904
Mathey Investments, Inc.	—	2,735	—	2,735
Cambridge Sound Management, LLC	—	2,698	—	2,698
Alloy Die Casting Corp.	—	2,068	—	2,068
Tread Corp.	—	1,896	—	1,896
Frontier Packaging, Inc.	—	1,816	—	1,816
SBS, Industries, LLC	—	1,746	—	1,746
Behrens Manufacturing, LLC	—	692	—	692
Old World Christmas, Inc.	—	477	—	477
Quench Holdings Corp.	—	375	—	375
B+T Group Acquisition Inc.	—	344	—	344
Edge Adhesives Holdings, Inc.	—	(274)	—	(274)
Meridian Rack & Pinion, Inc.	—	(411)	—	(411)
D.P.M.S., Inc.	—	(605)	—	(605)
Country Club Enterprises, LLC	—	(806)	—	(806)
Channel Technologies Group, LLC	—	(807)	—	(807)
Galaxy Tool Holding Corp.	—	(2,992)	—	(2,992)
Acme Cryogenics, Inc.	—	(3,881)	—	(3,881)
B-Dry, LLC	—	(4,081)	—	(4,081)
Mitchell Rubber Products, Inc.	—	(7,178)	—	(7,178)
Other, net (<$250 Net)	(73)	(43)	—	(116)
Total	**$ (73)**	**$ 29,940**	**$ —**	**$29,867**

The primary reason for the change in our net unrealized appreciation of $29.9 million for the year ended March 31, 2015, was an increase in the equity valuations of Funko, SOG, Drew Foam, Jackrabbit, Inc. (“Jackrabbit”), and NDLI, due to an increase in the portfolio companies’ performance and an increase in certain comparable multiples used to estimate the fair value of our investments. This was partially offset by decreased performance in several of our portfolio companies.

During the year ended March 31, 2014, we recorded net unrealized depreciation on investments in the aggregate amount of $29.2 million, which included the reversal of $0.8 million in aggregate unrealized appreciation, primarily related to the sale of Venyu, partially offset by the sale of ASH and Packerland, and the restructure of Noble. Excluding reversals, we had $28.4 million in net unrealized depreciation for the year ended March 31, 2014.

Realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2014, were as follows:

	Year Ended March 31, 2014			
Portfolio Company	Realized Gain (Loss)	Unrealized (Depreciation) Appreciation	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Venyu Solutions, Inc.(A)	$ 24,798	$ (1,596)	$ (17,374)	$ 5,828
Auto Safety House, LLC (B)	(11,402)	4,925	11,410	4,933
Quench Holdings Corp.	—	3,377	—	3,377
Frontier Packaging, Inc.	—	1,712	—	1,712
Channel Technologies Group, LLC	—	2,187	(583)	1,604
B-Dry, LLC	—	1,555	—	1,555
Funko, LLC	—	1,113	—	1,113
Packerland Whey Products, Inc. (C)	(1,764)	(369)	2,500	367
Tread Corp.	—	(735)	—	(735)
Mathey Investments, Inc.	—	(922)	—	(922)
D.P.M.S., Inc.	—	(1,229)	—	(1,229)
Star Seed, Inc.	—	(1,406)	—	(1,406)
Acme Cryogenics, Inc.	—	(1,564)	—	(1,564)
Jackrabbit, Inc.	—	(1,687)	—	(1,687)
Mitchell Rubber Products, Inc.	—	(2,016)	—	(2,016)
Alloy Die Casting Corp.	—	(2,111)	—	(2,111)
Galaxy Tool Holding Corp.	—	(2,364)	—	(2,364)
Drew Foam Company, Inc.	—	(2,837)	—	(2,837)
Noble Logistics, Inc. (D)	(3,432)	(2,989)	3,432	(2,989)
SOG Specialty Knives & Tools, LLC	—	(3,183)	—	(3,183)
Precision Southeast, Inc.	—	(3,227)	—	(3,227)
Schylling, Inc.	—	(3,853)	—	(3,853)
Ginsey Home Solutions, Inc.	—	(5,702)	—	(5,702)
SBS, Industries, LLC	—	(5,823)	—	(5,823)
Other, net (<$250 Net)	41	328	(175)	194
Total	**$ 8,241**	**$ (28,416)**	**$ (790)**	**$(20,965)**

(A) Venu was sold in August 2013.
(B) ASH equity investment was sold in October 2013.
(C) Packerland equity investment was sold in November 2013.
(D) Noble was restructured in February 2014.

The primary changes in our net unrealized depreciation for the year ended March 31, 2014, were due to decreased equity valuations in several of our portfolio companies, primarily due to decreased portfolio company performance and decreases in certain comparable multiples used to estimate the fair value of our investments.

Over our entire investment portfolio, we recorded approximately $1.0 million of net unrealized appreciation on our debt positions and $28.9 million of net unrealized appreciation on our equity holdings for the year ended March 31, 2015. At March 31, 2015, the fair value of our investment portfolio was less than our cost basis by approximately $39.2 million, as compared to $69.1 million at March 31, 2014, representing net unrealized appreciation of $29.9 million for the year ended March 31, 2015. We believe that our aggregate investment portfolio is valued at a depreciated value due to the lingering effects of the recent recession on the performance of certain of our portfolio companies. Our entire portfolio was fair valued at 92.2% of cost as of March 31, 2015. The unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution.

Net Realized Loss on Other

For the year ended March 31, 2014, we recorded a net realized loss of $29, due to the expiration of interest rate cap agreements. For the year ended March 31, 2015, no such amounts were incurred.

Net Unrealized Depreciation on Other

For the years ended March 31, 2015 and 2014, we recorded $0.5 million and $0.4 million, respectively, of net unrealized depreciation on our Credit Facility recorded at fair value.

Comparison of the Fiscal Year Ended March 31, 2014, to the Fiscal Year Ended March 31, 2013

	For the Fiscal Years Ended March 31,			
	2014	**2013**	**$ Change**	**% Change**
INVESTMENT INCOME				
Interest income	**$ 30,460**	$24,798	$ 5,662	22.8%
Other income	**5,804**	5,740	64	1.1
Total investment income	**36,264**	30,538	5,726	18.8
EXPENSES				
Base management fee	**6,207**	5,412	795	14.7
Loan servicing fee	**4,326**	3,725	601	16.1
Incentive fee	**3,983**	2,585	1,398	54.1
Administration fee	**863**	785	78	9.9
Interest and dividend expense	**4,925**	3,977	948	23.8
Amortization of deferred financing costs	**1,024**	791	233	29.5
Other	**2,264**	1,828	436	23.9
Total expenses before credits from Adviser	**23,592**	19,103	4,489	23.5
Credits to fees from Adviser	**(6,635)**	(5,053)	(1,582)	(31.3)
Total expenses, net of credits to fees	**16,957**	14,050	2,907	20.7
NET INVESTMENT INCOME	**19,307**	16,488	2,819	17.1
REALIZED AND UNREALIZED (LOSS) GAIN				
Net realized gain on investments	**8,241**	843	7,398	877.6
Net realized loss on other	**(29)**	(41)	12	29.3
Net unrealized (depreciation) appreciation of investments	**(29,206)**	804	(30,010)	NM
Net unrealized depreciation (appreciation) of other	**358**	(815)	1,173	NM
Net realized and unrealized (loss) gain on investments and other	**(20,636)**	791	(21,427)	NM
NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ (1,329)**	$17,279	$(18,608)	NM
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	**$ 0.73**	$ 0.68	$ 0.05	7.4%
Net (decrease) increase in net assets resulting from operations	**(0.05)**	0.71	(0.76)	NM

NM = Not Meaningful

Investment Income

Total investment income increased by 18.8% for the year ended March 31, 2014, as compared to the prior year. This increase was primarily due an increase in interest income in the year ended March 31, 2014, as a result of an increase in the size of our loan portfolio and holding higher-yielding debt investments.

Interest income from our investments in debt securities increased 22.8% for the year ended March 31, 2014, as compared to the prior year. 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 year ended March 31, 2014, was approximately $241.5 million, compared to approximately $198.1 million for the prior year. This increase was primarily due to $125.6 million in new investments originated after March 31, 2013, including Jackrabbit, Funko, Star Seed, Schylling, Inc. (“Schylling”), Alloy Die Casting Corp. (“ADC”), Behrens Manufacturing, LLC (“Behrens”), Meridian Rack & Pinion, Inc. (“Meridian”), Head Country Food Products, Inc. (“Head Country”) and Edge Adhesives Holdings Inc. (“Edge”), partially offset by the exit of Venyu and the repayment of debt investments of Cavert and Channel.

As of March 31, 2014, our loans to Tread were on non-accrual. ASH, which was on non-accrual as of September 30, 2013, was sold to certain members of its existing management team in October 2013. As a result of the sale, we retained a $5.0 million accruing revolving credit facility in ASH, which is no longer on non-accrual. The non-accrual aggregate weighted average principal balance was $19.9 million during the year ended March 31, 2014. As of March 31, 2013, loans to two portfolio companies, ASH and Tread, were on non-accrual, with an aggregate weighted average principal balance of $20.5 million during the year ended March 31, 2013. Tread was put on non-accrual and Country Club Enterprises, LLC (“CCE”) was taken off non-accrual during the three months ended December 31, 2012. The weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and excluding receipts recorded as other income, for the year ended March 31, 2014, was 12.6%, compared to 12.5% for the prior year.

Other income for the year ended March 31, 2014 remained relatively unchanged from the prior year. During the year ended March 31, 2014, other income primarily consisted of a combined $3.3 million in success fee and dividend income received in connection with the exit of Venyu, $0.8 million and $0.2 million in success and prepayment fees resulting from payoffs from Channel and Cavert, respectively, and SOG's and Frontier's elections to prepay success fees of $0.5 million and $0.2 million, respectively. During the year ended March 31, 2013, other income primarily consisted of $4.1 million of dividend income from the Galaxy Tool Holding Corp. ("Galaxy") recapitalization, $0.7 million in dividend income received on preferred shares of Acme, and Mathey's and Cavert's elections to each prepay $0.4 million of success fees.

The following table lists the investment income for our five largest portfolio company investments at fair value during the respective fiscal years:

	As of March 31, 2014		Year Ended March 31, 2014	
Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
SOG Specialty Knives and Tools, LLC	$ 26,639	8.5%	$ 3,157	8.7%
Acme Cryogenics, Inc.	25,776	8.2	1,691	4.7
Galaxy Tool Holding, Inc.	18,512	5.9	2,124	5.9
Ginsey Home Solutions, Inc.	16,132	5.1	1,786	4.9
Edge Adhesives Holdings, Inc. (A)	15,969	5.1	142	0.4
Subtotal—five largest investments	**103,028**	**32.8**	**8,900**	**24.6**
Other portfolio companies	211,365	67.2	27,364	75.4
Total investment portfolio	**$314,393**	**100.0%**	**$ 36,264**	**100.0%**

	As of March 31, 2013		Year Ended March 31, 2013	
Company	**Fair Value**	**% of Portfolio**	**Investment Income**	**% of Total Investment Income**
Venyu Solutions, Inc. (B)	$ 43,970	15.4%	$ 2,502	8.2%
SOG Specialty Knives and Tools, LLC	29,822	10.4	2,657	8.7
Acme Cryogenics, Inc.	27,340	9.5	2,368	7.8
Ginsey Home Solutions, Inc.(A)	21,833	7.6	1,331	4.4
Galaxy Tool Holding, Inc.(C)	20,876	7.3	4,711	15.4
Subtotal—five largest investments	**143,841**	**50.2**	**13,569**	**44.5**
Other portfolio companies	142,641	49.8	16,969	55.5
Total investment portfolio	**$286,482**	**100.0%**	**$ 30,538**	**100.0%**

(A) New investment during the applicable year.
(B) Venyu was sold in August 2013.
(C) Investment income includes $4.1 million non-cash dividend recognized from recapitalization.

Expenses

Total expenses, excluding any voluntary, irrevocable and non-contractual credits from the Adviser, increased 23.4% for the year ended March 31, 2014, as compared to the prior year, primarily due to an increase in the base management fee, incentive fee, and interest expense, as compared to the prior year.

The base management fee increased for the year ended March 31, 2014, as compared to the prior year, as a result of the increased size of our portfolio. Additionally, a net incentive fee of $3.9 million was earned by the Adviser during the fiscal year ended March 31, 2014, compared to $2.4 million for the prior year. The base management fee, loan servicing fee, and incentive fee, and their related unconditional and irrevocable voluntary credits, are computed quarterly, as described under

"Investment Advisory and Management Agreement" in Note 4 of the notes to our accompanying *Consolidated Financial Statements* and are summarized in the following table:

	Year Ended March 31,	
	2014	**2013**
Average total assets subject to base management fee(A)	**$310,350**	$270,600
Multiplied by annual base management fee of 2%	**2.0%**	2.0%
Base management fee(B)	**6,207**	5,412
Credits to fees from Adviser-other(B)	**(2,309)**	(1,107)
Net base management fee	**$ 3,898**	$ 4,305
Loan servicing fee(B)	**4,326**	3,725
Credits to base management fee-loan servicing fee(B)	**(4,326)**	(3,725)
Net loan servicing fee	**$ —**	**$ —**
Incentive fee(B)	**3,983**	2,585
Credits to fees from Adviser-other(B)	**—**	(221)
Net Incentive fee	**$ 3,983**	$ 2,364

(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 Statement of Operations*. For the year ended March 31, 2013, the credits to incentive fee and the credits to base management fee are combined into one line item, Credits to fees from Adviser-other, on the accompanying *Consolidated Statement of Operations*.

Interest and dividend expense increased 23.8% for the fiscal year ended March 31, 2014, as compared to the prior year, primarily due to increased commitment (unused) fees related to the expansion of our Credit Facility from $60 million to $105 million and increased average borrowings under our Credit Facility. The average balance outstanding on our Credit Facility during the fiscal year ended March 31, 2014, was $34.6 million, as compared to $15.5 million in the prior year.

Realized and Unrealized Gain (Loss)

Net Realized Gain on Investments

During the fiscal year ended March 31, 2014, we recorded a net realized gain of $8.2 million consisting of a $24.8 million gain on the Venyu sale, partially offset by the realized losses of $11.4 million and $1.8 million related to the equity sales of ASH and Packerland, respectively, and the realized loss of $3.4 million related to the restructuring of Noble. During the year ended March 31, 2013, we recorded a realized gain of $0.8 million relating to post-closing adjustments on the previous investment exit of A. Stucki.

Net Unrealized Appreciation (Depreciation) of Investments

During the year ended March 31, 2014, we recorded net unrealized depreciation on investments in the aggregate amount of $29.2 million, which included the reversal of $0.8 million in aggregate unrealized appreciation, primarily related to the sale of Venyu, partially offset by the sale of ASH and Packerland, and the restructure of Noble. Excluding reversals, we had $28.4 million in net unrealized depreciation for the year ended March 31, 2014.

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The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2014, were as follows:

	Year Ended March 31, 2014			
Portfolio Company	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Venyu Solutions, Inc.(A)	$ 24,798	$ (1,596)	$ (17,374)	$ 5,828
Auto Safety House, LLC (B)	(11,402)	4,925	11,410	4,933
Quench Holdings Corp.	—	3,377	—	3,377
Frontier Packaging, Inc.	—	1,712	—	1,712
Channel Technologies Group, LLC	—	2,187	(583)	1,604
B-Dry, LLC	—	1,555	—	1,555
Funko, LLC	—	1,113	—	1,113
Packerland Whey Products, Inc. (C)	(1,764)	(369)	2,500	367
Tread Corp.	—	(735)	—	(735)
Mathey Investments, Inc.	—	(922)	—	(922)
D.P.M.S., Inc.	—	(1,229)	—	(1,229)
Star Seed, Inc.	—	(1,406)	—	(1,406)
Acme Cryogenics, Inc.	—	(1,564)	—	(1,564)
Jackrabbit, Inc.	—	(1,687)	—	(1,687)
Mitchell Rubber Products, Inc.	—	(2,016)	—	(2,016)
Alloy Die Casting Corp.	—	(2,111)	—	(2,111)
Galaxy Tool Holding Corp.	—	(2,364)	—	(2,364)
Drew Foam Company, Inc.	—	(2,837)	—	(2,837)
Noble Logistics, Inc. (D)	(3,432)	(2,989)	3,432	(2,989)
SOG Specialty Knives & Tools, LLC	—	(3,183)	—	(3,183)
Precision Southeast, Inc.	—	(3,227)	—	(3,227)
Schylling, Inc.	—	(3,853)	—	(3,853)
Ginsey Home Solutions, Inc.	—	(5,702)	—	(5,702)
SBS, Industries, LLC	—	(5,823)	—	(5,823)
Other, net (<$250 Net)	41	328	(175)	194
Total	**$ 8,241**	**$ (28,416)**	**$ (790)**	**$(20,965)**

(A) Venyu was sold in August 2013.
(B) ASH equity investment was sold in October 2013.
(C) Packerland equity investment was sold in November 2013.
(D) Noble was restructured in February 2014.

The primary changes in our net unrealized depreciation for the year ended March 31, 2014, were due to decreased equity valuations in several of our portfolio companies, primarily due to decreased portfolio company performance and decreases in certain comparable multiples used to estimate the fair value of our investments.

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During the year ended March 31, 2013, we recorded net unrealized depreciation on investments in the aggregate amount of $0.8 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2013, were as follows:

	Year Ended March 31, 2013			
Portfolio Company	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Venyu Solutions, Inc.	$ —	$ 20,640	$ —	$ 20,640
Galaxy Tool Holdings, Inc.	—	12,057		12,057
Country Club Enterprises, LLC	—	7,467	—	7,467
Mathey Investments, Inc.	—	1,653	—	1,653
Precision Southeast, Inc.	—	1,594	—	1,594
SBS, Industries, LLC	—	1,238	—	1,238
A. Stucki Holding Corp.	861	—	—	861
Drew Foam Company, Inc.	—	750	—	750
SOG Specialty Knives & Tools, LLC	—	(273)	—	(273)
Ginsey Home Solutions, Inc.	—	(618)	—	(618)
Frontier Packaging, Inc.	—	(872)	—	(872)
Quench Holdings Corp.	—	(944)	—	(944)
Acme Cryogenics, Inc.	—	(962)	—	(962)
Channel Technologies Group, LLC	—	(1,288)	—	(1,288)
Auto Safety House, LLC	—	(1,458)	—	(1,458)
Mitchell Rubber Products, Inc.	—	(1,762)	—	(1,762)
Packerland Whey Products, Inc.	—	(2,131)	—	(2,131)
B-Dry, LLC	—	(3,953)	—	(3,953)
Noble Logistics, Inc.	—	(6,420)	—	(6,420)
D.P.M.S., Inc.	—	(8,225)	—	(8,225)
Tread Corp.	—	(15,930)	—	(15,930)
Other, net (<$250 Net)	(18)	241	—	223
Total	**$ 843**	**$ 804**	**$ —**	**$ 1,647**

The primary changes in our net unrealized appreciation for the fiscal year ended March 31, 2013, were due to notable unrealized appreciation of our equity investment in Venyu, primarily due to increased portfolio company performance and an increase in certain comparable multiples used to estimate the fair value. We also experienced notable appreciation in our investments in Galaxy and CCE, primarily due to increased portfolio company performance. This unrealized appreciation was partially offset by notable depreciation of our debt investments in D.P.M.S., Inc. (d/b/a Danco Acquisition Corp.) ("Danco") and in our debt and equity investments in Tread, Noble and B-Dry, LLC ("B-Dry"), primarily due to decreased portfolio company performance and, to a lesser extent, a decrease in certain comparable multiples used to estimate the fair value of our investments.

Over our entire investment portfolio, we recorded, in the aggregate, $10.7 million of net unrealized appreciation and $39.9 million of net unrealized depreciation on our debt positions and equity holdings, respectively, for the year ended March 31, 2014. As of March 31, 2014, the fair value of our investment portfolio was less than our cost basis by $69.1 million, as compared to $39.9 million as of March 31, 2013, representing net unrealized depreciation of $29.2 million for fiscal year 2014. We believe that our aggregate investment portfolio was valued at a depreciated value due to the lingering effects of the recent recession on the performance of certain of our portfolio companies. Our entire investment portfolio was fair valued at 82.0% of cost as of March 31, 2014. The unrealized depreciation of our investments does not have an impact on our current ability to pay distributions to stockholders; however, it may be an indication of future realized losses, which could ultimately reduce our income available for distribution.

Realized Loss on Other

For the years ended March 31, 2014 and 2013, we recorded a net realized loss of $29 and $41, respectively, due to the expiration of interest rate cap agreements in each year.

Net Unrealized Depreciation (Appreciation) on Other

For the years ended March 31, 2014 and 2013, we recorded $0.4 million of net unrealized depreciation and $0.9 million of net unrealized appreciation, respectively, on our Credit Facility recorded at fair value.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Our cash flows from operating activities are primarily generated from cash collections of interest and dividend payments from our portfolio companies, as well as cash proceeds received through repayments of debt investments and sales of equity investments. These cash collections are primarily used to pay distributions to our stockholders, interest payments on our Credit Facility, dividend payments on our three series of mandatorily redeemable preferred stock, management fees to the Adviser, and for other operating expenses. Net cash used in operating activities for the year ended March 31, 2015, was approximately $97.6 million, as compared to $33.6 million for the year ended March 31, 2014. This increase in cash used in operating activities was primarily due to a decrease in principal repayments and proceeds from the sale of investments year over year. Repayments and proceeds from the sale of investments totaled $11.3 million during the year ended March 31, 2015, compared to $83.4 million during the year ended March 31, 2014, largely due to our exit of Venyu in August 2013, which resulted in sale proceeds of $30.8 million and principal repayments of $19.0 million.

Net cash used in operating activities for the year ended March 31, 2014, was $33.6 million, as compared to $39.7 million during the year ended March 31, 2013. This decrease in cash used in operating activities was primarily due to an increase in principal repayments and sales proceeds of $55 million over the prior year, largely due to our exit of Venyu in August 2013, partially offset by increased investment originations of $48.7 million over the prior year.

As of March 31, 2015, we had equity investments in or loans to 34 private companies with an aggregate cost basis of approximately $505.3 million. As of March 31, 2014, we had equity investments in or loans to 29 private companies with an aggregate cost basis of approximately $383.5 million. The following table summarizes our total portfolio investment activity for the years ended March 31, 2015 and 2014:

	Years Ended March 31,	
	2015	**2014**
Beginning investment portfolio, at fair value	**$314,393**	$286,482
New investments	**108,197**	125,567
Disbursements to existing portfolio companies	**24,705**	6,636
Increase in investment balance due to PIK	**78**	88
Scheduled principal repayments	**(878)**	(110)
Unscheduled principal repayments	**(10,382)**	(51,718)
Proceeds from sales	—	(31,587)
Net realized gain	—	8,241
Net unrealized appreciation (depreciation)	**29,940**	(28,416)
Reversal of net unrealized appreciation	—	(790)
Ending Investment Portfolio, at Fair Value	**$466,053**	**$314,393**

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of March 31, 2015:

		Amount
For the fiscal years ending March 31:	2016	$ 19,567
	2017	43,861
	2018	100,316
	2019	81,681
	2020	115,403
	Thereafter	9,618
	Total contractual repayments	**$ 370,446**
	Investments in equity securities	134,812
	Total Cost Basis of Investments Held as of March 31, 2015:	**$ 505,258**

Financing Activities

Net cash provided by financing activities for the year ended March 31, 2015, was approximately $97.9 million, which consisted primarily of $41.4 million of proceeds from the issuance of our Series B Term Preferred Stock, $23.0 million of net proceeds from the issuance of additional shares of our common stock, and $57.5 million of net borrowings on our Credit Facility, partially offset by $20.6 million in distributions to common stockholders. Net cash used in financing activities for the year ended March 31, 2014, was $47.7 million and consisted primarily of net repayments of our short-term borrowings of $58.0 million and distributions to common stockholders of $18.8 million, partially offset by $30.3 million in net borrowings from our Credit Facility.

Distributions 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 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 $0.06 per common share for each month during the year ended March 31, 2015, as well as a special distribution of $0.05 in December 2014. In April 2015, our Board of Directors also declared a monthly distribution of $0.0625 per common share for each of April, May, and June 2015, which is a 4.2% run rate increase on a monthly basis. Our Board of Directors declared these distributions based on estimates of taxable income for the fiscal year ending March 31, 2016.

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, 2016 will be determined after the 2016 fiscal year end based upon our taxable income for the full year and distributions paid during the full year. Such a characterization made on a quarterly basis may not be representative of the actual full year characterization.

For the year ended March 31, 2015, distributions to common stockholders totaled of $20.6 million and were less than our taxable income for the same year, when also considering prior year spillover amounts under Section 855(a) of the Code. In addition, we recorded a $0.6 million adjustment for estimated book-tax differences, which decreased capital in excess of par value and increased net investment income in excess of distributions. At March 31, 2015, we elected to treat $4.0 million of the first distribution paid after fiscal year-end as having been paid in the prior fiscal year, in accordance with Section 855(a) of the Code. For the year ended March 31, 2014, distributions to common stockholders totaled $18.8 million and were less than our taxable income for the same year, when also considering prior year spillover amounts under Section 855(a) of the Code. At March 31, 2014, we elected to treat $3.9 million of the first distribution paid after fiscal year-end as having been paid in the prior fiscal year, in accordance with Section 855(a) of the Code.

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 for each month during the year ended March 31, 2015. For the year ended March 31, 2015, our Board of Directors declared and we paid dividends for the pro-rated month of November 2014 and for each full month from December 2014 through March 31, 2015 in aggregate of $0.703125 per share to our holders of Series B Term Preferred Stock. In April 2015, our Board of Directors also declared a monthly dividend of $0.1484375 and $0.140625 per preferred share for each of April, May, and June 2015 to the holders of our Series A Term Preferred Stock and Series B Term Preferred Stock, respectively. In May 2015, our Board of Directors declared a combined prorated dividend for May 2015 and a full month dividend for June 2015, which totaled $0.221181 per share, to the holders of our Series C Term Preferred Stock. 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

We offer a dividend reinvestment plan for our common stockholders who hold their shares through our transfer agent, Computershare, Inc. 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. We do not have a dividend reinvestment plan for our preferred stock stockholders.

Equity

Registration Statement

We filed a registration statement on Form N-2 (File No. 333-181879) with the SEC on June 4, 2012, and subsequently filed a Pre-Effective Amendment No. 1 to the registration statement on July 17, 2012, which the SEC declared effective on July 26, 2012. On June 7, 2013, we filed Post-Effective Amendment No. 2 to the registration statement, which the SEC declared effective on July 26, 2013. On June 3, 2014, we filed Post-Effective Amendment No. 3 to the registration statement, and subsequently filed a Post-Effective Amendment No. 4 to the registration statement on September 2, 2014, which the SEC declared effective on September 4, 2014. 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 a combined offering of two or more of such securities. We generated $33.0 million and $28.1 million of gross proceeds through the issuance of common stock under the registration statement in October and November 2012 and March 2015 and April 2015, respectively. Additionally, we issued $41.4 million of our Series B Term Preferred Stock and $40.3 million of our Series C Term Preferred Stock under the registration statement in November 2014 and May 2015, respectively. No other securities have been issued to date under the registration statement. Currently, we have the ability to issue up to $117.3 million in securities under the registration statement.

Common Stock

Pursuant to our registration statement on Form N-2 (Registration No. 333-181879), on October 5, 2012, we completed a public offering of 4.0 million shares of our common stock at a public offering price of $7.50 per share, which was below then current NAV of $8.65 per share. Gross proceeds totaled $30.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately $28.3 million, which was used to repay borrowings under our Credit Facility. In connection with the offering, in November 2012, the underwriters exercised their option to purchase an additional 395,825 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of $3.0 million and net proceeds, after deducting underwriting discounts, of approximately $2.8 million.

Also pursuant to our registration statement on Form N-2 (Registration No. 333-181879), on March 13, 2015, we completed a public offering of 3.3 million shares of our common stock at a public offering price of $7.40 per share, which was below then current NAV of $8.55 per share. Gross proceeds totaled $24.4 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately $23.0 million, which were primarily used to repay borrowings under our Credit Facility. In connection with the offering, on April 2, 2015, the underwriters exercised their option to purchase an additional 495,000 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of $3.7 million and net proceeds, after deducting underwriting discounts, of approximately $3.5 million.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the 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 consistently 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. On May 19, 2015, the closing market price of our common stock was $7.54 per share, representing a 17.9% discount to our NAV of $9.18 as of March 31, 2015. 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 2014 Annual Meeting of Stockholders held on August 7, 2014, 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. At our 2015 Annual Meeting of Stockholders, scheduled to take place in August 2015, we will again ask our stockholders to vote in favor of a similar proposal so that it may be in effect for another year.

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 expenses borne by us, were approximately $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. We incurred $2.0 million in total offering costs related to the offering, which have been recorded as deferred financing costs on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending February 28, 2017, the mandatory redemption date.

Our Series A Term Preferred Stock provides for a fixed dividend equal to 7.125% per year, payable monthly (which equates to $2.9 million per year). We are 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 is not convertible into our common stock or any other security. In addition, three other potential 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 the outstanding Series A Term Preferred Stock; (2) if we fail to maintain an asset coverage ratio of at least 200%, we are required to redeem a portion of the outstanding Series A Term Preferred Stock or otherwise cure the ratio redemption trigger and (3) at our sole option, at any time on or after February 28, 2016, we may redeem some or all of our Series A Term Preferred Stock.

Pursuant to our 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 expenses borne by us, were $39.7 million. We incurred $1.7 million in total offering costs related to this offering, which have been recorded as deferred financing costs 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, (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. We may also voluntarily redeem all or a portion of our Series B Term Preferred Stock at our sole option at the redemption price in order to have an asset coverage ratio of up to and including 215.0% and at any time on or after December 31, 2017.

Also pursuant to our 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 expenses borne by us, were approximately $38.6 million. We incurred $1.6 million in total offering costs related to this offering, which will be recorded as deferred financing costs on future 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. Our Series C Term Preferred Stock 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, (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. We may also voluntarily redeem all or a portion of our Series C Term Preferred Stock at our sole option at the redemption price in order to have an asset coverage ratio of up to and including 215.0% and at any time on or after May 31, 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 A, B, and C Term Preferred Stock are considered liabilities in accordance with GAAP and, as such, affect our asset coverage, exposing us to additional leverage risks.

Revolving Credit Facility

On June 26, 2014, we, through Business Investment, entered into Amendment No. 1 to our Credit Facility, with 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 14 months to June 26, 2017, and if not renewed or extended by June 26, 2017, all principal and interest will be due and payable on or before June 26, 2019 (two years after the revolving period end date). In addition, we have retained the two one-year extension options, to be agreed upon by all parties, which may be exercised on or before June 26, 2015 and 2016, respectively, and upon exercise, the options would extend the revolving period to June 26, 2018 and 2019 and the maturity date to June 26, 2020 and 2021, respectively. Subject to certain terms and conditions, our Credit Facility can be expanded by up to $145.0 million, to a total facility amount of $250 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, down from 3.75% prior to the amendment, 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, which are being amortized through our Credit Facility's revolver period end date of June 26, 2017.

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, which are being amortized through our Credit Facility's revolver period end date of June 26, 2017.

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, for each of the twelve month periods ending March 31, 2016 and 2017. We are also subject to certain limitations on the type of loan investments we can make, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility also requires us to comply with other financial and operational covenants, which obligate us 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 $202.9 million as of March 31, 2015, (ii) "asset coverage" with respect to "senior securities representing indebtedness" of at least 200%, in accordance with Section 18 of the 1940 Act and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of March 31, 2015, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $354.8 million, an asset coverage of 229.9% and an active status as a BDC and RIC. As of March 31, 2015, we were in compliance with all covenants under our Credit Facility.

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 and with The Bank of New York Mellon Trust Company, N.A. as custodian. KeyBank is also the trustee of the account and generally remits the collected funds to us once a month.

Pursuant to the terms of our Credit Facility, in July 2013, we entered into a forward interest rate cap agreement, effective October 2013 and expiring April 2016, for a notional amount of $45.0 million. We incurred a premium fee of $75 in conjunction with this agreement. The interest rate cap agreement effectively limits the interest rate on a portion of the borrowings pursuant to the terms of our Credit Facility.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

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 line of credit and other uncalled capital commitments as of March 31, 2015 to be minimal.

In addition to the lines of credit and other uncalled capital commitments to our portfolio companies, we have also extended certain guarantees on behalf of some our portfolio companies, whereby we have guaranteed an aggregate of $2.6 million of obligations of CCE. As of March 31, 2015, we have not been required to make any payments on any of the guarantees, and we consider the credit risks to be remote and the fair value of the guaranties to be minimal.

The following table shows our contractual obligations as of March 31, 2015, at cost:

Contractual Obligations(A)	Total	Payments Due by Period Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Credit Facility (B)	$118,800	$ —	$118,800	$ —	$ —
Mandatorily redeemable preferred stock(C)	81,400	—	40,000	—	41,400
Secured borrowing	5,096	—	5,096	—	—
Interest payments on obligations(D)	35,681	10,571	17,301	5,674	2,135
Total	**$240,977**	**$ 10,571**	**$181,197**	**$ 5,674**	**$ 43,535**

(A) Excludes our unused line of credit commitments and uncalled capital commitments and guaranties to our portfolio companies in the aggregate amount of $12.6 million.
(B) Principal balance of borrowings outstanding under our Credit Facility, based on the current contractual revolver period end date due to the revolving nature of the facility.
(C) Excludes $40.3 million of our Series C Term Preferred Stock issued in May 2015 with a mandatory redemption date in May 2022.
(D) Includes interest payments due on our Credit Facility and dividend obligations on each series of our mandatorily redeemable preferred stock. Dividend payments on our mandatorily redeemable term preferred stock assume quarterly declarations and monthly distributions through the date of mandatory redemption of each series.

Of our interest bearing debt investments as of March 31, 2015, 83.0% had a success fee component, which enhances the yield on our debt investments. Unlike PIK income, we generally recognize success fees as income only when the payment has been received. As a result, as of March 31, 2015 and 2014, we had aggregate off-balance sheet success fee receivables of $24.3 million and $17.7 million (or approximately $0.82 and $0.69 per common share), respectively, 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 our success fee receivable on our balance sheet or income statement. Due to our success fees' contingent nature, there are no guarantees that we will be able to collect all of these success fees or know the timing of such collections.

Litigation

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.

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.

Investment Valuation

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of our investments and the related amounts of unrealized appreciation and depreciation of investments recorded in our accompanying *Consolidated Financial Statements.*

Accounting Recognition

We record our investments at fair value in accordance with the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification Topic 820, "*Fair Value Measurements and Disclosures"* ("ASC 820") and the 1940 Act. Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and amortized cost basis of the investment, without regard to unrealized 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.

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 (as defined below) assumptions based upon the best available information.

When a determination is made to classify our investments within Level 3 of the valuation hierarchy, such determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable, or Level 3, inputs, observable inputs (or, components that are actively quoted and can be validated to external sources). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. As of March 31, 2015 and 2014, all of our investments were valued using Level 3 inputs and during the years ended March 31, 2015 and 2014, there were no investments transferred into or out of Level 1, 2 or 3.

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 the Policy. Our Board of Directors reviews valuation recommendations that are provided by professionals of the Adviser and Administrator with oversight and direction from the chief valuation officer, (the "Valuation Team"). There is no single standard for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. In determining the fair value of our investments, the Valuation Team, led by the chief valuation officer, uses the Policy and each quarter our Board of Directors reviews the Policy to determine if changes thereto are advisable and also reviews whether the Valuation Team has applied the Policy consistently.

Use of Third Party Valuation Firms

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

Standard & Poor's Securities Evaluation, Inc. ("SPSE") 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 Board of Directors reviews 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 the Company's 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 Board of Directors as to the fair value. Our Board of Directors reviews the recommended fair value and whether it is reasonable in light of the Policy and 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 references 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, fair value is generally based 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.

- *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 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 above valuation techniques, the Valuation Team may also consider other factors when determining fair values of our investments, including but not limited to: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on debt and equity investments made during the current reporting quarter (the three months ended March 31, 2015) are generally valued at 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* in the accompanying notes to our accompanying *Consolidated Financial Statements* included elsewhere in this report for additional information regarding fair value measurements and our application of ASC 820.

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. During the three months ended June 30, 2014, we modified our risk rating model to incorporate additional factors in our qualitative and quantitative analysis. While the overall process did not change, we believe the additional factors enhance the quality of the risk ratings of our investments. No adjustments were made to prior periods as a result of this modification.

The following table reflects risk ratings for all loans in our portfolio as of March 31, 2015 and 2014:

Rating	As of March 31, 2015	2014
Highest	**10.0**	9.1
Average	**5.9**	5.7
Weighted Average	**6.4**	5.2
Lowest	**3.0**	2.6

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 also meet certain annual stockholder distribution requirements. To satisfy the RIC annual distribution requirement, 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 gain net income for the one-year period ending on October 31 of the calendar year, and (3) any ordinary income and capital gain net income from preceding years that were not distributed during such years. Under the RIC Modernization Act (the "RIC Act"), we are permitted to carryforward capital losses incurred in taxable years beginning after September 30, 2011, for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. 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 total capital loss carry forward balance was $0.3 million as of March 31, 2015.

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 March 31, 2015, our loans to Tread were on non-accrual status, with an aggregate debt cost basis of $11.7 million, or 3.1% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $1.8 million, or 0.5% of the fair value of all debt investments in our portfolio. As of March 31, 2014, our loans to Tread were on non-accrual status, with an aggregate debt cost basis of $11.7 million, or 4.2% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $0.

PIK interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be included in our calculation of distributable income for purposes of complying with our distribution requirements, even though we have not yet collected the cash. During the years ended March 31, 2015 and 2014, we recorded PIK income of $0.1 million. We did not hold any loans in our portfolio that contained a PIK provision during the year ended March 31, 2013.

Other Income Recognition

We generally record success fees upon receipt of cash. Success fees are contractually due upon a change of control in a portfolio company, typically from an exit or sale. We recorded an aggregate of $1.4 million of success fees during the year ended March 31, 2015 related to prepaid success fees from SOG, ASH, Drew Foam, Frontier, and Mathey. We recorded an aggregate of $4.2 million of success fees during the year ended March 31, 2014 related to debt exits or prepayments from Venyu, Channel, Cavert, SOG, Mathey and Frontier. During the year ended March 31, 2013, we recorded an aggregate of $0.8 million of success fees, representing prepayments received from Mathey and Cavert.

Dividend income on equity investments is accrued to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash. During the year ended March 31, 2015, we recorded an aggregate of $3.5 million of dividend income from Funko, SOG, Drew Foam, Frontier, and Mathey. For the year ended March 31, 2014, we recorded $1.4 million in dividend income related to the exit of Venyu. During the year ended March 31, 2013, we recorded an aggregate of $4.8 million in dividend income, which resulted from payments from Galaxy and Acme, respectively.

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

Recent Accounting Pronouncements

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. We are currently assessing the impact of ASU 2015-03 and do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, with early adoption permitted.

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 new standard changes the way a reporting entity evaluates whether a) limited partnerships and similar entities should be consolidated, b) fees paid to decision makers or service provides are variable interests in a variable interest entity ("VIE"), and c) variable interests in a VIE held by related parties require the reporting entity to consolidate the VIE. ASU 2015-02 also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. We do not anticipate ASU 2015-02 to 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, 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 the annual period ending after December 31, 2016 and for annual periods 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"), 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 and anticipate no impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2014-09 is effective for annual reporting periods that begin after December 15, 2016 and interim periods within those years, with early adoption not permitted.

In June 2013, the FASB issued Accounting Standards Update 2013-08, "*Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*" ("ASU 2013-08"), which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so there was no impact from adopting this standard on our financial position or results of operations. We adopted ASU 2013-08 beginning with our quarter ended June 30, 2014, and have increased our disclosure requirements as necessary.

ITEM 7A. 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 companies whose securities are owned by us; 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 is dependent upon the difference between the rate at which we borrow funds 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 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 March 31, 2015, our portfolio consisted of the following breakdown based on total principal balance of all outstanding debt investments:

79.9%	Variable rates with a floor
20.1	Fixed rates
100.0%	**Total**

On June 26, 2014, we, through our wholly-owned subsidiary, Business Investment, entered into Amendment No. 1 to the Fifth Amended and Restated Credit Agreement originally entered into on April 30, 2013, with KeyBank, as 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 14 months to June 26, 2017, and if not renewed or extended by June 26, 2017, all principal and interest will be due and payable on or before June 26, 2019 (two years after the revolving period end date). In addition, we have retained the two one-year extension options, to be agreed upon by all parties, which may be exercised on or before June 26, 2015 and 2016, respectively, and upon exercise, the options would extend the revolving period to June 26, 2018 and 2019 and the maturity date to June 26, 2020 and 2021, respectively. Subject to certain terms and conditions, 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. 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. Advances under our Credit Facility generally bear interest at 30-day LIBOR, plus 3.25% per annum, down from 3.75% prior to the amendment, 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.

In connection with original closing date of our Credit Facility in July 2013, we entered into a forward interest rate cap agreement, effective October 2013 and expiring in April 2016. As of March 31, 2015, the interest rate cap agreement had a minimal fair value.

The current interest rate cap agreement entitles us to receive payments, if any, equal to the amount by which interest payments on the current notional amount at the 30-day LIBOR exceed the payments on the current notional amount at 6.0%. This agreement effectively caps our interest payments on our line of credit borrowings, up to the notional amount of the interest rate cap over the remaining term of the agreement. This mitigates our exposure to increases in interest rates on our borrowings on our line of credit, which are at variable rates.

To illustrate the potential impact of changes in interest rates on our net increase (decrease) in net assets resulting from operations, we have performed the following hypothetical analysis, which assumes that our balance sheet and interest rates remain constant as of March 31, 2015 and no further actions are taken to alter our existing interest rate sensitivity.

Basis Point Change (a)	Increase in Interest Income	Increase (Decrease) in Interest Expense	Net (Decrease) Increase in Net Assets Resulting from Operations
Up 300 basis points	$ 2,902	$ 3,564	$ (662)
Up 200 basis points	766	2,376	(1,610)
Up 100 basis points	80	1,188	(1,108)
Down 17 basis points	—	(204)	204

(a) As of March 31, 2015, our effective average LIBOR was 0.17%, therefore the largest decrease in basis points that could occur was 17 basis points.

Although management believes that this analysis is indicative of our existing interest rate sensitivity, it does not adjust for potential changes in credit quality, size and composition of our loan portfolio on the balance sheet and other business developments that could affect net increase (decrease) in net assets resulting from operations. Accordingly, actual results could differ significantly from those in the hypothetical analysis in the table above.

We may also experience risk associated with investing in securities of companies with foreign operations. Some of our portfolio companies have operations located outside the U.S. These risks include, but are not limited to, fluctuations in foreign currency exchange rates, imposition of foreign taxes, changes in exportation regulations and political and social instability.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Management's Annual Report on Internal Control over Financial Reporting

To the Stockholders and Board of Directors of Gladstone Investment Corporation:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and include those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer and treasurer, we assessed the effectiveness of our internal control over financial reporting as of March 31, 2015, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013)*. Based on its assessment, management has concluded that our internal control over financial reporting was effective as of March 31, 2015.

The effectiveness of our internal control over financial reporting as of March 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

May 20, 2015

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Gladstone Investment Corporation:

In our opinion, the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, and the related consolidated statements of operations, of changes in net assets and of cash flows present fairly, in all material respects, the financial position of Gladstone Investment Corporation and its subsidiaries (the "Company") as of March 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2015, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits, which included confirmation of securities as of March 31, 2015 by correspondence with the custodian, provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, VA
May 20, 2015

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	March 31,	
	2015	**2014**
ASSETS		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of **$162,598** and $233,895, respectively)	**$174,373**	$205,440
Affiliate investments (Cost of **$310,628** and $120,010, respectively)	**271,050**	87,849
Control investments (Cost of **$32,032** and $29,632 respectively)	**20,630**	21,104
Total investments at fair value (Cost of **$505,258** and $383,537, respectively)	**466,053**	314,393
Cash and cash equivalents	**4,921**	4,553
Restricted cash and cash equivalents	**260**	5,314
Interest receivable	**1,867**	1,289
Due from custodian	**4,512**	1,704
Deferred financing costs, net	**4,529**	2,355
Other assets	**1,379**	1,086
TOTAL ASSETS	**$483,521**	$330,694
LIABILITIES		
Borrowings:		
Line of credit at fair value (Cost of **$118,800** and $61,250, respectively)	**$118,800**	$ 61,701
Other secured borrowings	**5,096**	5,000
Total borrowings	**123,896**	66,701
Mandatorily redeemable preferred stock, $0.001 par value, $25 liquidation preference; **3,610,000** and 1,610,000 shares authorized, respectively; **3,256,000** and 1,600,000 shares issued and outstanding, respectively	**81,400**	40,000
Accounts payable and accrued expenses	**1,271**	665
Fees due to Adviser(A)	**1,502**	1,225
Fee due to Administrator(A)	**262**	224
Other liabilities	**1,761**	1,042
TOTAL LIABILITIES	**210,092**	**109,857**
Commitments and contingencies(B)		
NET ASSETS	**$273,429**	$220,837
ANALYSIS OF NET ASSETS		
Common stock, $0.001 par value per share, **100,000,000** shares authorized; **29,775,958** and 26,475,958 shares issued and outstanding, respectively	**$ 30**	$ 26
Capital in excess of par value	**309,438**	287,062
Cumulative net unrealized depreciation of investments	**(39,204)**	(69,144)
Cumulative net unrealized (depreciation) (appreciation) of other	**(75)**	(525)
Net investment income in excess of distributions	**3,511**	3,616
Accumulated net realized loss	**(271)**	(198)
TOTAL NET ASSETS	**$273,429**	$220,837
NET ASSET VALUE PER COMMON SHARE AT END OF YEAR	**$ 9.18**	$ 8.34

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

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

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GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Year Ended March 31,		
	2015	**2014**	**2013**
INVESTMENT INCOME			
Interest income:			
Non-Control/Non-Affiliate investments	**$ 17,541**	$ 21,190	$ 15,292
Affiliate investments	**16,844**	3,625	3,114
Control investments	**2,296**	5,642	6,388
Cash and cash equivalents	**4**	3	4
Total interest income	**36,685**	30,460	24,798
Other income:			
Non-Control/Non-Affiliate investments	**4,424**	1,210	1,634
Affiliate investments	**534**	1,299	—
Control investments	**—**	3,295	4,106
Total other income	**4,958**	5,804	5,740
Total investment income	**41,643**	36,264	30,538
EXPENSES			
Base management fee(A)	**7,569**	6,207	5,412
Loan servicing fee(A)	**4,994**	4,326	3,725
Incentive fee(A)	**4,975**	3,983	2,585
Administration fee(A)	**932**	863	785
Interest expense on borrowings	**3,539**	2,075	1,127
Dividends on mandatorily redeemable preferred stock	**3,921**	2,850	2,850
Amortization of deferred financing costs	**1,329**	1,024	791
Professional fees	**908**	805	541
Other general and administrative expenses	**1,421**	1,459	1,287
Expenses before credits from Adviser	**29,588**	23,592	19,103
Credits to base management fee – loan servicing fee(A)	**(4,994)**	(4,326)	(3,725)
Credits to fees from Adviser—other(A)	**(2,848)**	(2,309)	(1,328)
Total expenses, net of credits to fees	**21,746**	16,957	14,050
NET INVESTMENT INCOME	**$ 19,897**	$ 19,307	$ 16,488
REALIZED AND UNREALIZED GAIN (LOSS)			
Net realized (loss) gain:			
Non-Control/Non-Affiliate investments	**—**	(14,834)	849
Affiliate investments	**—**	(1,763)	—
Control investments	**(73)**	24,838	(6)
Other	**—**	(29)	(41)
Total net realized (loss) gain	**(73)**	8,212	802
Net unrealized appreciation (depreciation):			
Non-Control/Non-Affiliate investments	**37,047**	(6,382)	(7,722)
Affiliate investments	**(4,233)**	(1,481)	(19,214)
Control investments	**(2,874)**	(21,343)	27,740
Other	**450**	358	(815)
Total net unrealized appreciation (depreciation)	**30,390**	(28,848)	(11)
Net realized and unrealized gain (loss)	**30,317**	(20,636)	791
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	**$ 50,214**	$ (1,329)	$ 17,279
BASIC AND DILUTED PER COMMON SHARE:			
Net investment income	**$ 0.75**	$ 0.73	$ 0.68
Net increase (decrease) in net assets resulting from operations	**$ 1.88**	$ (0.05)	$ 0.71
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:			
Basic and diluted	**26,665,821**	26,475,958	24,189,148

(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)

	Year Ended March 31,		
	2015	**2014**	**2013**
OPERATIONS			
Net investment income	**$ 19,897**	$ 19,307	$ 16,488
Net realized (loss) gain on investments	**(73)**	8,241	843
Net realized loss on other	**—**	(29)	(41)
Net unrealized appreciation (depreciation) of investments	**29,940**	(29,206)	804
Net unrealized depreciation (appreciation) of other	**450**	358	(815)
Net increase (decrease) in net assets from operations	**50,214**	(1,329)	17,279
EQUITY CAPITAL ACTIVITY			
Issuance of common stock	**24,420**	—	32,969
Offering costs for issuance of common stock	**(1,458)**	—	(1,954)
Distributions to common stockholders	**(20,584)**	(18,797)	(14,547)
Net increase (decrease) in net assets from equity capital activity	**2,378**	(18,797)	16,468
TOTAL INCREASE (DECREASE) IN NET ASSETS	**52,592**	(20,126)	33,747
NET ASSETS AT BEGINNING OF YEAR	**220,837**	240,963	207,216
NET ASSETS AT END OF YEAR	**$273,429**	$220,837	$240,963

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended March 31,		
	2015	**2014**	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net increase (decrease) in net assets resulting from operations	**$ 50,214**	$ (1,329)	$ 17,279
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:			
Purchase of investments	**(132,902)**	(132,203)	(87,607)
Principal repayments of investments	**11,260**	51,828	25,243
Proceeds from the sale of investments	**—**	31,587	3,181
Increase in investment balance due to paid in kind interest	**(78)**	(88)	—
Net realized loss (gain) on investments	**73**	(8,241)	(843)
Net realized loss on other	**—**	29	41
Net unrealized (appreciation) depreciation of investments	**(29,940)**	29,206	(804)
Net unrealized (appreciation) depreciation of other	**(450)**	(358)	815
Amortization of deferred financing costs	**1,329**	1,024	791
Decrease (increase) in restricted cash and cash equivalents	**4,981**	(4,688)	1,302
(Increase) decrease in interest receivable	**(578)**	20	(59)
Increase in due from custodian	**(2,808)**	(27)	(150)
(Increase) decrease in other assets	**(293)**	383	(867)
Increase (decrease) in accounts payable and accrued expenses	**606**	(345)	613
Increase (decrease) in fees due to Adviser **(A)**	**277**	(842)	1,571
Increase in administration fee payable to Administrator **(A)**	**38**	3	3
Increase (decrease) in other liabilities	**719**	429	(243)
Net cash used in operating activities	**(97,552)**	(33,612)	(39,734)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	**24,420**	—	32,969
Offering costs for issuance of common stock	**(1,458)**	—	(1,954)
Proceeds from short-term loans	**—**	56,514	250,063
Repayments on short-term loans	**—**	(114,530)	(268,052)
Proceeds from line of credit	**144,549**	145,350	144,000
Repayments on line of credit	**(87,000)**	(115,100)	(113,000)
Proceeds from other secured borrowings	**96**	—	5,000
Proceeds from issuance of mandatorily redeemable preferred stock	**41,400**	—	—
Purchase of derivatives	**—**	(75)	—
Payment of deferred financing costs	**(3,503)**	(1,101)	(387)
Distributions paid to common stockholders	**(20,584)**	(18,797)	(14,547)
Net cash provided by (used in) financing activities	**97,920**	(47,739)	34,092
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**368**	(81,351)	(5,642)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**4,553**	85,904	91,546
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 4,921**	$ 4,553	$ 85,904
CASH PAID DURING YEAR FOR INTEREST	**$ 3,310**	$ 1,952	$ 1,079
NON-CASH ACTIVITIES (B)	**$ —**	$ —	$ 4,106

(A) Refer to Note 4—*Related Party Transactions* for additional information.
(B) In February 2013, we recapitalized our investment in Galaxy Tool Holdings Corp. ("Galaxy"), converting $8.2 million of Galaxy preferred stock and its related $4.1 million in accrued dividends into a new $12.3 million senior debt investment in a non-cash transaction. We recognized $4.1 million in dividend income on our *Consolidated Statements of Operations* during the year ended March 31, 2013 related to this recapitalization.

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
MARCH 31, 2015
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS(N):					
Auto Safety House, LLC	Automobile	Secured Line of Credit, $1,000 available (7.0%, Due 10/2019)(I)(K)	$ —	$ —	$ —
		Senior Secured Term Debt (7.0%, Due 10/2019)(I)(K)	5,000	5,000	4,938
				5,000	4,938
Cavert II Holding Corp.	Containers, Packaging, and Glass	Preferred Stock (18,446 shares)(C)(F)(L)		1,845	3,265
				1,845	3,265
Country Club Enterprises, LLC	Automobile	Senior Subordinated Secured Term Debt (18.7%, Due 5/2017)(L)	4,000	4,000	4,000
		Preferred Stock (7,079,792 shares)(C)(F)(L)		7,725	2,863
		Guaranty ($2,000)(D)			
		Guaranty ($593)(D)			
				11,725	6,863
Drew Foam Company, Inc.	Chemicals, Plastics, and Rubber	Senior Secured Term Debt (13.5%, Due 8/2017)(L)	10,913	10,913	10,913
		Preferred Stock (34,045 shares)(C)(F)(L)		3,375	3,532
		Common Stock (5,372 shares)(C)(F)(L)		63	2,813
				14,351	17,258
Frontier Packaging, Inc.	Containers, Packaging, and Glass	Senior Secured Term Debt (12.0%, Due 12/2017)(L)	12,000	12,000	12,000
		Preferred Stock (1,373 shares)(C)(F)(L)		1,373	1,404
		Common Stock (152 shares)(C)(F)(L)		152	2,777
				13,525	16,181
Funko, LLC(M)	Personal and Non-Durable Consumer Products (Manufacturing Only)	Senior Subordinated Secured Term Debt (9.3%, Due 5/2019)(I)(K)	7,500	7,500	7,734
		Senior Subordinated Secured Term Debt (9.3%, Due 5/2019)(I)(K)	2,000	2,000	2,063
		Preferred Stock (1,305 shares)(C)(F)(L)		1,305	15,211
				10,805	25,008
Ginsey Home Solutions, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Subordinate Secured Term Debt (13.5%, Due 1/2018)(H)(L)	13,300	13,300	13,300
		Preferred Stock (18,898 shares)(C)(F)(L)		9,583	7,176
		Common Stock (63,747 shares)(C)(F)(L)		8	—
				22,891	20,476
Jackrabbit, Inc.	Farming and Agriculture	Senior Secured Term Debt (13.5%, Due 4/2018)(L)	11,000	11,000	11,000
		Preferred Stock (3,556 shares)(C)(F)(L)		3,556	4,139
		Common Stock (548 shares)(C)(F)(L)		94	2,399
				14,650	17,538
Mathey Investments, Inc.	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	Senior Secured Term Debt (10.0%, Due 3/2016)(L)	1,375	1,375	1,375
		Senior Secured Term Debt (12.0%, Due 3/2016)(L)	3,727	3,727	3,727
		Senior Secured Term Debt (12.5%, Due 3/2016)(E)(I)(L)	3,500	3,500	3,500
		Common Stock (29,102 shares)(C)(F)(L)		777	7,630
				9,379	16,232
Mitchell Rubber Products, Inc.	Chemicals, Plastics, and Rubber	Subordinated Secured Term Debt (13.0%, Due 10/2016)(I)(K)	13,560	13,560	8,136
		Subordinated Secured Term Debt (13.0%, Due 12/2015)(I)(K)	1,500	1,500	900
		Preferred Stock (27,900 shares)(C)(F)(L)		2,790	—
		Common Stock (27,900 shares)(C)(F)(L)		28	—
				17,878	9,036
Quench Holdings Corp.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Common Stock (4,770,391 shares)(C)(F)(L)		3,397	5,432
				3,397	5,432
SBS, Industries, LLC	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	Senior Secured Term Debt (14.0%, Due 8/2016)(L)	11,355	11,355	11,355
		Preferred Stock (19,935 shares)(C)(F)(L)		1,994	2,627
		Common Stock (221,500 shares)(C)(F)(L)		222	183
				13,571	14,165

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2015
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
Schylling, Inc.	Leisure, Amusement, Motion Pictures, Entertainment	Senior Secured Term Debt (13.0%, Due 8/2018)(L)	$ 13,081	$ 13,081	$ 13,081
		Preferred Stock (4,000 shares)(C)(F)(L)		4,000	—
				17,081	13,081
Star Seed, Inc.	Farming and Agriculture	Senior Secured Term Debt (12.5%, Due 5/2018)(E)(K)	5,000	5,000	4,900
		Preferred Stock (1,499 shares)(C)(F)(L)		1,499	—
		Common Stock (600 shares)(C)(F)(L)		1	—
				6,500	4,900
Total Non-Control/Non-Affiliate Investments (represents 37.4% of total investments at fair value)				**$162,598**	**$ 174,373**
AFFILIATE INVESTMENTS(O):					
Acme Cryogenics, Inc.	Chemicals, Plastics, and Rubber	Senior Subordinated Secured Term Debt (11.5%, Due 3/2020)(I)(L)	$ 14,500	$ 14,500	$ 14,500
		Preferred Stock (965,982 shares)(C)(F)(L)		7,956	8,519
		Common Stock (549,908 shares)(C)(F)(L)		1,197	—
		Common Stock Warrants (465,639 shares)(C)(F)(L)		25	—
				23,678	23,019
Alloy Die Casting Corp.(M)	Diversified/Conglomerate Manufacturing	Senior Secured Term Debt (13.5%, Due 10/2018)(K)	12,215	12,215	12,154
		Preferred Stock (4,064 shares)(C)(F)(L)		4,064	4,122
		Common Stock (630 shares)(C)(F)(L)		41	—
				16,320	16,276
Behrens Manufacturing, LLC(M)	Diversified/Conglomerate Manufacturing	Senior Secured Term Debt (13.0%, Due 12/2018)(L)	9,975	9,975	9,975
		Preferred Stock (2,923 shares)(C)(F)(L)		2,922	3,447
				12,897	13,422
B-Dry, LLC	Personal, Food and Miscellaneous Services	Secured Line of Credit, $175 available (6.5%, Due 12/2016)(L)	2,075	2,075	1,124
		Senior Secured Term Debt (13.5%, Due 12/2019)(L)	6,433	6,443	3,490
		Senior Secured Term Debt (13.5%, Due 12/2019)(L)	840	840	455
		Preferred Stock (2,250 shares)(C)(F)(L)		2,250	—
		Common Stock (2,250 shares)(C)(F)(L)		300	—
				11,908	5,069
B+T Group Acquisition Inc.(M)	Telecommunications	Secured Line of Credit, $700 available (10.0%, Due 6/2015)(L)	700	700	700
		Senior Secured Term Debt (13.0%, Due 12/2019)(L)	14,000	14,000	14,000
		Preferred Stock (12,841 shares)(C)(F)(L)		4,196	4,541
				18,896	19,241
Cambridge Sound Management, Inc.	Home and Office Furnishing, Housewares and Durable Consumer Products	Senior Secured Term Debt (13.0%, Due 9/2019)(L)	15,000	15,000	15,000
		Preferred Stock (4,500 shares)(C)(F)(L)		4,500	7,198
				19,500	22,198
Channel Technologies Group, LLC	Diversified/Conglomerate Manufacturing	Preferred Stock (2,279 shares)(C)(F)(L)		2,864	2,315
		Common Stock (2,279,020 shares)(C)(F)(L)		—	—
				2,864	2,315
Counsel Press, Inc.	Diversified/Conglomerate Services	Secured Line of Credit, $500 available (12.8%, Due 3/2017)(J)	1,500	1,500	1,500
		Senior Secured Term Debt (12.8%, Due 3/2020)(J)	18,000	18,000	18,000
		Senior Secured Term Debt (14.0%, Due 3/2020)(J)	5,500	5,500	5,500
		Preferred Stock (6,995 shares)(C)(F)(J)		6,995	6,995
				31,995	31,995
D.P.M.S., Inc.	Diversified/Conglomerate Manufacturing	Secured Line of Credit, $550 available (4.0%, Due 8/2016)(I)(L)	4,000	4,000	762
		Senior Secured Term Debt (4.0%, Due 8/2016)(I)(L)	2,575	2,575	490
		Senior Secured Term Debt (4.0%, Due 8/2016)(I)(L)	8,795	8,795	1,674
		Senior Secured Term Debt (5.0%, Due 8/2016)(E)(L)	1,150	1,150	219
		Preferred Stock (25 shares)(C)(F)(L)		2,500	—
		Common Stock Warrants (1,241 shares)(C)(F)(L)		3	—
				19,023	3,145

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2015
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
Edge Adhesives Holdings, Inc. (M)	Diversified/Conglomerate Manufacturing	Secured Line of Credit, $10 available (12.5%, Due 8/2015) (K)	$ 1,490	$ 1,490	$ 1,488
		Senior Secured Term Debt (12.5%, Due 2/2019) (K)	9,300	9,300	9,300
		Senior Subordinated Secured Term Debt (13.8%, Due 2/2019) (K)	2,400	2,400	2,403
		Preferred Stock (3,474 shares)(C)(F)(L)		3,474	3,199
				16,664	16,390
Head Country Food Products, Inc.	Beverage, Food and Tobacco	Senior Secured Term Debt (12.5%, Due 2/2019)(L)	9,050	9,050	9,050
		Preferred Stock (4,000 shares)(C)(F)(L)		4,000	3,931
				13,050	12,981
Logo Sportswear, Inc.	Textiles and Leather	Secured Line of Credit, $500 available (10.0%, Due 9/2015)(J)	—	—	—
		Senior Secured Term Debt (12.5%, Due 3/2020)(J)	9,200	9,200	9,200
		Preferred Stock (1,550 shares)(C)(F)(J)		1,550	1,550
				10,750	10,750
Meridian Rack & Pinion, Inc.(M)	Automobile	Senior Secured Term Debt (13.5%, Due 12/2018) (K)	9,660	9,660	9,612
		Preferred Stock (3,381 shares)(C)(F)(L)		3,381	3,117
				13,041	12,729
NDLI Acquisition, LLC	Cargo Transport	Secured Line of Credit, $50 available (10.5%, Due 1/2016) (L)	2,875	2,875	2,308
		Senior Secured Term Debt (11.0%, Due 1/2018)(L)	7,227	7,227	5,803
		Senior Secured Term Debt (10.5%, Due 1/2018)(L)	3,650	3,650	2,931
		Senior Secured Term Debt (10.5%, Due 1/2018)(E)(L)	3,650	3,650	2,930
		Preferred Stock (3,600 shares)(C)(F)(L)		3,600	—
		Common Stock (545 shares)(C)(F)(L)		—	—
				21,002	13,972
Old World Christmas, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Secured Term Debt (13.3%, Due 10/2019) (L)	15,770	15,770	15,770
		Preferred Stock (6,180 shares)(C)(F)(L)		6,180	6,657
				21,950	22,427
Precision Southeast, Inc.	Diversified/Conglomerate Manufacturing	Senior Secured Term Debt (14.0%, Due 9/2020)(L)	9,617	9,617	9,617
		Preferred Stock (37,391 shares)(C)(F)(J)		3,739	1,830
		Common Stock (90,909 shares)(C)(F)(L)		91	—
				13,447	11,447
SOG Specialty Knives & Tools, LLC	Leisure, Amusement, Motion Pictures, Entertainment	Senior Secured Term Debt (13.3%, Due 10/2017) (L)	6,200	6,200	6,200
		Senior Secured Term Debt (14.8%, Due 10/2017) (L)	12,200	12,200	12,200
		Preferred Stock (9,749 shares)(C)(F)(L)		9,749	13,451
				28,149	31,851
Tread Corporation	Oil and Gas	Secured Line of Credit, $853 available (12.5%, Due 2/2018) (G)(L)	2,397	2,397	375
		Senior Subordinated Secured Term Debt (12.5%, Due 2/2018) (G)(I)(L)	5,000	5,000	782
		Senior Subordinated Secured Term Debt (12.5%, Due 2/2018) (G)(I)(L)	2,750	2,750	430
		Senior Subordinated Secured Term Debt (12.5%, Due 2/2018) (G)(I)(L)	1,000	1,000	156
		Senior Subordinated Secured Term Debt (12.5%, Due on Demand) (G)(I)(L)	510	510	80
		Preferred Stock (3,332,765 shares) (C)(F)(L)		3,333	—
		Common Stock (7,716,320 shares) (C)(F)(L)		501	—
		Common Stock Warrants (2,372,727 shares) (C)(F)(L)		3	—
				15,494	1,823
Total Affiliate Investments (represents 58.2% of total investments at fair value)				**$310,628**	**$ 271,050**

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GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2015
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
CONTROL INVESTMENTS(P):					
Galaxy Tool Holding Corporation	Aerospace and Defense	Secured Line of Credit, $1,250 available (10.0%, Due 9/2015)(L)	$ 3,250	$ 3,250	$ 3,250
		Senior Subordinated Secured Term Debt (13.5%, Due 8/2017)(L)	15,520	15,520	15,520
		Preferred Stock (6,039,387 shares)(C)(F)(L)		11,464	—
		Common Stock (88,843 shares)(C)(F)(L)		48	—
				30,282	18,770
Roanoke Industries Corp.	Buildings and Real Estate	Senior Secured Term Debt (10.0%, Due 11/2019)(I)(L)	1,650	1,650	1,650
		Common Stock (57 shares)(C)(F)(L)		100	210
				1,750	1,860
Total Control Investments (represents 4.4% of total investments at fair value)				**$ 32,032**	**$ 20,630**
TOTAL INVESTMENTS(Q)				**$505,258**	**$ 466,053**

(A) Certain of the securities listed are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $435.9 million at fair value, are pledged as collateral to our credit facility 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, 2015.

(B) Percentages represent the weighted average cash interest rates in effect at March 31, 2015, and due date represents the contractual maturity date. Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate ("LIBOR"). If applicable, paid-in-kind ("PIK") interest rates are noted separately from the cash interest rates.

(C) Security is non-income producing.

(D) Refer to Note 11—*Commitments and Contingencies* for additional information regarding these guaranties.

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

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

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

(H) $5.1 million of the debt security participated to a third party but accounted for as collateral for a secured borrowing for accounting principles generally accepted in the U.S. ("GAAP") purposes as of March 31, 2015.

(I) Debt security has a fixed interest rate.

(J) New portfolio investment valued at cost, as it was determined that the price paid during the three months ended March 31, 2015 best represents fair value as of March 31, 2015.

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

(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.

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

(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) Cumulative gross unrealized depreciation for federal income tax purposes is $80.6 million; cumulative gross unrealized appreciation for federal income tax purposes is $41.4 million. Cumulative net unrealized depreciation is $39.2 million, based on a tax cost of $505.6 million.

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
MARCH 31, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS(N):					
Acme Cryogenics, Inc.	Chemicals, Plastics, and Rubber	Senior Subordinated Secured Term Debt (11.5%, Due 3/2015) (I)(L)	$ 14,500	$14,500	$ 14,500
		Preferred Stock (898,814 shares(C)(F)(L)		6,984	11,276
		Common Stock (418,072 shares)(C)(F)(L)		1,045	—
		Common Stock Warrants (465,639 shares)(C)(F)(L)		25	—
				22,554	25,776
Alloy Die Casting Corp. (M)	Diversified/Conglomerate Manufacturing	Senior Secured Term Debt (13.5%, Due 10/2018) (K)	12,215	12,215	12,261
		Preferred Stock (4,064 shares)(C)(F)(L)		4,064	1,948
		Common Stock (630 shares)(C)(F)(L)		41	—
				16,320	14,209
Auto Safety House, LLC (M)	Automobile	Secured Line of Credit, $1,000 available (7.0%, Due 10/2018)(I)(K)	5,000	5,000	4,925
		Guaranty ($500)(D)			
		Guaranty ($250)(D)			
				5,000	4,925
B-Dry, LLC	Buildings and Real Estate	Secured Line of Credit, $0 available (6.5%, Due 5/2014)(K)	750	750	566
		Senior Secured Term Debt (13.5%, Due 5/2014)(K)	6,433	6,443	4,865
		Senior Secured Term Debt (13.5%, Due 5/2014)(K)	2,840	2,840	2,144
		Common Stock Warrants (85 shares)(C)(F)(L)		300	—
				10,333	7,575
Cavert II Holding Corp.	Containers, Packaging, and Glass	Preferred Stock (18,446 shares)(C)(F)(L)		1,845	3,023
				1,845	3,023
Country Club Enterprises, LLC	Automobile	Senior Subordinated Secured Term Debt (18.6%, Due 11/2014) (L)	4,000	4,000	4,000
		Preferred Stock (7,079,792 shares)(C)(F)(L)		7,725	3,670
		Guaranty ($2,000)(D)			
		Guaranty ($878)(D)			
				11,725	7,670
Drew Foam Company, Inc.	Chemicals, Plastics, and Rubber	Senior Secured Term Debt (13.5%, Due 8/2017)(L)	10,913	10,913	10,913
		Preferred Stock (34,045 shares)(C)(F)(L)		3,375	1,351
		Common Stock (5,372 shares)(C)(F)(L)		63	—
				14,351	12,264
Frontier Packaging, Inc.	Containers, Packaging, and Glass	Senior Secured Term Debt (12.0%, Due 12/2017) (L)	12,500	12,500	12,500
		Preferred Stock (1,373 shares)(C)(F)(L)		1,373	1,522
		Common Stock (152 shares)(C)(F)(L)		152	843
				14,025	14,865
Funko, LLC(M)	Personal and Non-Durable Consumer Products (Manufacturing Only)	Senior Subordinated Secured Term Debt (12.0% and 1.5% PIK, Due 5/2019)(K)	7,587	7,587	7,729
		Preferred Stock (1,305 shares)(C)(F)(L)		1,305	2,276
				8,892	10,005
Ginsey Home Solutions, Inc.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Senior Subordinate Secured Term Debt (13.5%, Due 1/2018) (H)(L)	13,050	13,050	13,050
		Preferred Stock (18,898 shares(C)(F)(L)		9,393	3,082
		Common Stock (63,747 shares)(C)(F)(L)		8	—
				22,451	16,132
Jackrabbit, Inc.	Farming and Agriculture	Secured Line of Credit, $3,000 available (13.5%, Due 4/2014)(L)	—	—	—
		Senior Secured Term Debt (13.5%, Due 4/2018)(L)	11,000	11,000	11,000
		Preferred Stock (3,556 shares)(C)(F)(L)		3,556	1,963
		Common Stock (548 shares)(C)(F)(L)		94	—
				14,650	12,963
Mathey Investments, Inc.	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	Senior Secured Term Debt (10.0%, Due 3/2016)(L)	1,375	1,375	1,375
		Senior Secured Term Debt (12.0%, Due 3/2016)(L)	3,727	3,727	3,727
		Senior Secured Term Debt (12.5%,Due 3/2016)(E)(I)(L)	3,500	3,500	3,500
		Common Stock (29,102 shares)(C)(F)(L)		777	4,895
				9,379	13,497

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
Mitchell Rubber Products, Inc.	Chemicals, Plastics and Rubber	Subordinated Secured Term Debt (13.0%, Due 10/2016)(I)(K)	$ 13,560	$ 13,560	$ 13,628
		Preferred Stock (27,900 shares)(C)(F)(L)		2,790	1,086
		Common Stock (27,900 shares)(C)(F)(L)		28	—
				16,378	14,714
Noble Logistics, Inc.	Cargo Transport	Secured Line of Credit, $0 available (10.5%, Due 1/2015)(K)	800	800	204
		Senior Secured Term Debt (11.0%, Due 1/2015)(K)	7,227	7,227	1,842
		Senior Secured Term Debt (10.5%, Due 1/2015)(K)	3,650	3,650	931
		Senior Secured Term Debt (10.5%, Due 1/2015)(E)(K)	3,650	3,650	931
				15,327	3,908
Precision Southeast, Inc.	Diversified/Conglomerate Manufacturing	Senior Secured Term Debt (14.0%, Due 12/2015)(L)	5,617	5,617	5,617
		Preferred Stock(19,091 shares)(C)(F)(L)		1,909	—
		Common Stock (90,909 shares)(C)(F)(L)		91	—
				7,617	5,617
Quench Holdings Corp.	Home and Office Furnishings, Housewares, and Durable Consumer Products	Common Stock (4,770,391 shares)(C)(F)(L)		3,397	5,056
				3,397	5,056
SBS, Industries, LLC	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	Senior Secured Term Debt (14.0%, Due 8/2016)(L)	11,355	11,355	11,355
		Preferred Stock (19,935 shares)(C)(F)(L)		1,994	1,064
		Common Stock (221,500 shares)(C)(F)(L)		221	—
				13,570	12,419
Schylling, Inc.	Leisure, Amusement, Motion Pictures, Entertainment	Senior Secured Term Debt (13.0%, Due 8/2017)(K)	13,081	13,081	13,228
		Preferred Stock (4,000 shares)(C)(F)(L)		4,000	—
				17,081	13,228
Star Seed, Inc.	Farming and Agriculture	Senior Secured Term Debt (12.5%, Due 4/2018)(K)	7,500	7,500	7,594
		Preferred Stock (1,499 shares)(C)(F)(L)		1,499	—
		Common Stock (600 shares)(C)(F)(L)		1	—
				9,000	7,594
Total Non-Control/Non-Affiliate Investments (represents 65.4% of total investments at fair value)				**$233,895**	**$ 205,440**
AFFILIATE INVESTMENTS(O):					
Behrens Manufacturing, LLC(M)	Diversified/Conglomerate Manufacturing	Senior Secured Term Debt (13.0%, Due 12/2018)(L)	$ 9,975	$ 9,975	$ 9,975
		Preferred Stock (2,923 shares)(C)(F)(L)		2,922	2,754
				12,897	12,729
Channel Technologies Group, LLC	Diversified/Conglomerate Manufacturing	Preferred Stock (2,279 shares)(C)(F)(L)		2,864	3,122
		Common Stock (2,279,020 shares)(C)(F)(L)		—	—
				2,864	3,122
D.P.M.S., Inc.	Diversified/Conglomerate Manufacturing	Secured Line of Credit, $700 available (4.0%, Due 8/2015)(I)(K)	3,450	3,450	690
		Senior Secured Term Debt (4.0%, Due 8/2015)(I)(K)	2,575	2,575	515
		Senior Secured Term Debt (4.0%, Due 8/2015)(I)(K)	8,795	8,795	1,759
		Senior Secured Term Debt (5.0%, Due 8/2015)(E)(K)	1,150	1,150	236
		Preferred Stock (25 shares)(C)(F)(L)		2,500	—
		Common Stock (1,241 shares)(C)(F)(L)		3	—
				18,473	3,200
Edge Adhesives Holdings, Inc.(M)	Diversified/Conglomerate Manufacturing	Secured Line of Credit, $705 available (10.5%, Due 8/2014)(J)	795	795	795
		Senior Secured Term Debt (12.5%, Due 2/2019)(J)	9,300	9,300	9,300
		Senior Subordinated Secured Term Debt (13.5%, Due 2/2019)(J)	2,400	2,400	2,400
		Preferred Stock (3,474 shares)(C)(F)(J)		3,474	3,474
				15,969	15,969
Head Country Food Products, Inc.	Beverage, Food and Tobacco	Secured Line of Credit, $500 available (10.0%, Due 8/2014)(J)	—	—	—
		Senior Secured Term Debt (12.5%, Due 2/2019)(J)	9,050	9,050	9,050
		Preferred Stock (4,000 shares)(C)(F)(J)		4,000	4,000
				13,050	13,050

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

Company(A)	Industry	Investment(B)	Principal	Cost	Fair Value
Meridian Rack & Pinion, Inc.(M)	Automobile	Senior Secured Term Debt (13.5%, Due 12/2018)(K)	$ 9,660	$ 9,660	$ 9,672
		Preferred Stock (3,381 shares)(C)(F)(L)		3,381	3,468
				13,041	13,140
SOG Specialty Knives & Tools, LLC.	Leisure, Amusement, Motion Pictures, Entertainment	Senior Secured Term Debt (13.3%, Due 8/2016)(L)	6,200	6,200	6,200
		Senior Secured Term Debt (14.8%, Due 8/2016)(L)	12,199	12,199	12,199
		Preferred Stock (9,749 shares)(C)(F)(L)		9,749	8,240
				28,148	26,639
Tread Corporation	Oil and Gas	Secured Line of Credit, $779 available (12.5%, Due 6/2014)(G)(L)	2,471	2,471	—
		Senior Subordinated Secured Term Debt (12.5%, Due 2/2015)(G)(I)(L)	5,000	5,000	—
		Senior Subordinated Secured Term Debt (12.5%, Due 2/2015)(G)(I)(L)	2,750	2,750	—
		Senior Subordinated Secured Term Debt (12.5%, Due 2/2015)(G)(I)(L)	1,000	1,000	—
		Senior Subordinated Secured Term Debt (12.5%, Due on Demand)(G)(I)(L)	510	510	—
		Preferred Stock (3,332,765 shares)(C)(F)(L)		3,333	—
		Common Stock (7,716,320 shares)(C)(F)(L)		501	—
		Common Stock Warrants (2,372,727 shares)(C)(F)(L)		3	—
				15,568	—
Total Affiliate Investments (represents 27.9% of total investments at fair value)				**$120,010**	**$ 87,849**
CONTROL INVESTMENTS(P):					
Galaxy Tool Holding Corp.	Aerospace and Defense	Senior Subordinated Secured Term Debt (13.5%, Due 8/2017)(L)	$ 15,520	$ 15,520	$ 15,520
		Preferred Stock (6,039,387 shares)(C)(F)(L)		11,464	2,992
		Common Stock (88,843 shares)(C)(F)(L)		48	—
				27,032	18,512
NDLI Acquisition, LLC	Cargo Transport	Preferred Stock (2,600 shares)(C)(F)(L)		2,600	2,592
		Common Stock (545 shares)(C)(F)(L)		—	—
				2,600	2,592
Total Control Investments (represents 6.7% of total investments at fair value)				**$ 29,632**	**$ 21,104**
TOTAL INVESTMENTS(Q)				**$383,537**	**$ 314,393**

(A) Certain of the securities listed are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $288.6 million at fair value, are pledged as collateral to our credit facility as described further in Note 5—*Borrowings*. Additionally, all of our investments are considered qualifying assets under Section 55 of the 1940 Act as of March 31, 2014.

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

(C) Security is non-income producing.

(D) Refer to Note 11—*Commitments and Contingencies* for additional information regarding these guaranties.

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

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

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

(H) $5.0 million of the debt security participated to a third party but accounted for as collateral for a secured borrowing for GAAP purposes as of March 31, 2014.

(I) Debt security has a fixed interest rate.

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

(K) Fair value was based on internal yield analysis or on estimates of value submitted by SPSE.

(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.

(M) One of our affiliated funds, Gladstone Capital, co-invested with us in this portfolio company pursuant to an exemptive order granted by the SEC.

(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) Cumulative gross unrealized depreciation for federal income tax purposes is $83.2 million; cumulative gross unrealized appreciation for federal income tax purposes is $13.9 million. Cumulative net unrealized depreciation is $69.3 million, based on a tax cost of $383.7 million.

GLADSTONE INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2015
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA AND AS OTHERWISE INDICATED)

NOTE 1. ORGANIZATION

Gladstone Investment Corporation ("Gladstone Investment") was incorporated under the General Corporation Law of the State of Delaware on February 18, 2005, and completed an initial public offering on June 22, 2005. The terms "the Company," "we," "our" and "us" all refer to Gladstone Investment and its consolidated subsidiaries. We are an externally advised, closed-end, non-diversified management investment company that has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"), and is applying the guidance of FASB ASC Topic 946 *Financial Services-Investment Companies*. In addition, we have elected to be treated for tax purposes as a regulated investment company ("RIC") under the Internal Revenue Code of 1986, as amended (the "Code"). We were established for the purpose of investing in debt and equity securities of established private businesses in the United States ("U.S."). Debt investments primarily come in the form of three types of loans: senior secured term loans, senior subordinated secured loans and junior subordinated secured debt. Equity investments primarily take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. Our investment objectives are: (a) to achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that grow over time, and (b) to provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses that we believe can grow over time to permit us to sell our equity investments for capital gains. We aim to maintain a portfolio allocation of approximately 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 14—*Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These *Consolidated Financial Statements* and the accompanying notes are prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") and conform to Regulation S-X under the Securities Exchange Act of 1934, as amended. Management believes it has made all necessary adjustments so that our accompanying *Consolidated Financial Statements* are presented fairly and that all such adjustments are of a normal recurring nature. Our accompanying *Consolidated Financial Statements* include our accounts and the accounts of our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Consolidation

Under Article 6 of Regulation S-X under the Securities Act of 1933, as amended, and the authoritative accounting guidance provided by the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, we are not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which we have a controlling interest.

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.

Revisions

Certain amounts in our prior fiscal year's financial statements have been revised to correct the net presentation of certain fees in our results of operations. The Adviser services, administers and collects on the loans held by Business Investment, in return for which the Adviser receives a 2.0% annual fee from Business Investment. This entire loan servicing fee paid to the Adviser by Business Investment is voluntarily and irrevocably credited against the base management fee otherwise payable to the Adviser, since Business Investment is a consolidated subsidiary of the Company, and overall, the base management fee (including any loan servicing fee) cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given calendar year pursuant to the Advisory Agreement. Previously, we incorrectly presented the loan servicing fee on a net basis, which is zero because it is 100.0% credited back to us. We have revised our fee presentation related to these loan servicing fees to reflect the gross fee and related gross credit amounts. Management evaluated this error in presentation and concluded it was not material to the previously issued consolidated financial statements for the years ended March 31, 2014 and 2013. The impact of the revisions are shown in the table below:

	Year Ended March 31, 2014		Year Ended March 31, 2013	
	As Previously Reported	As Revised	As Previously Reported	As Revised
Expenses				
Aggregate expenses (not revised)	$ 19,266	$ 19,266	$ 15,378	$ 15,378
Loan servicing fee	—	4,326	—	3,725
Expenses before credits from Adviser	19,266	23,592	15,378	19,103
Credits to base management fee—loan servicing fee	—	(4,326)	—	(3,725)
Credits to fees from Adviser—other	(2,309)	(2,309)	(1,328)	(1,328)
Total Expenses, Net of Credits to Fees	**$ 16,957**	**$ 16,957**	**$ 14,050**	**$ 14,050**

Classification of Investments

In accordance with the BDC regulations in the 1940 Act, we classify portfolio investments on our accompanying *Consolidated Statements of Assets and Liabilities*, *Consolidated Statements of Operations* and *Consolidated Schedules of Investments* into the following categories:

- *Non-Control/Non-Affiliate Investments*—Non-Control/Non-Affiliate investments are those that are neither control nor affiliate investments and in which we typically own less than 5.0% of the issued and outstanding voting securities;
- *Affiliate Investments*—Affiliate investments 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; and
- *Control Investments*—Control investments 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.

Investment Valuation Policy

Accounting Recognition

We record our investments at fair value in accordance with the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification Topic 820, "*Fair Value Measurements and Disclosures"* ("ASC 820") and the 1940 Act. Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and amortized cost basis of the investment, without regard to unrealized 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 the Company's investment valuation policy (which has been approved by our Board of Directors) (the "Policy"). Our Board of Directors reviews valuation recommendations that are provided by professionals of the Adviser and Administrator with oversight and direction from the chief valuation officer, (the "Valuation

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

Use of Third Party Valuation Firms

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

Standard & Poor’s Securities Evaluation, Inc. (“SPSE”) 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 Board of Directors reviews 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 the Company’s 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 Board of Directors as to the fair value. Our Board of Directors reviews the recommended fair value and whether it is reasonable in light of the Policy and 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 references 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, fair value is generally based 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.
- *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 above valuation techniques, the Valuation Team may also consider other factors when determining fair values of our investments, including but not limited to: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; and the markets in which the portfolio company operates. If applicable, new and follow-on debt and equity investments made during the current reporting quarter (the three months ended March 31, 2015) 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.

Realized Gain or Loss and Unrealized Appreciation or Depreciation of Portfolio Investments

Gains or losses on the sale of investments are calculated by using the specific identification method. A realized gain or loss is recognized at the trade date, typically when an investment is disposed of, and is computed as the difference between our cost basis in the investment at the disposition date and the net proceeds received from such disposition. Unrealized appreciation or depreciation displays the difference between the fair value of the investment and the cost basis of such investment. We determine the fair value of each individual investment each reporting period and record changes in fair value as unrealized appreciation or depreciation in our *Consolidated Statement of Operations*.

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 March 31, 2015 and 2014, our loans to Tread Corporation ("Tread") were on non-accrual status, with an aggregate debt cost basis at both period ends of $11.7 million, or 3.1% and 4.2% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $1.8 million and $0, or 0.5% and 0.0% of the fair value of all debt investments in our portfolio, respectively.

PIK interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income over the life of the obligation. As of March 31, 2015, we did not have any loans with a PIK interest component and as of March 31, 2014, we had one loan with a PIK interest component. During the years ended March 31, 2015 and 2014, we recorded PIK income of $0.1 million. We did not hold any loans in our portfolio that contained a PIK provision during the year ended March 31, 2013. We collected $0.2 million PIK interest in cash during the year ended March 31, 2015 and no PIK interest in cash during the years ended March 31, 2014 and 2013.

Other Income Recognition

We generally record success fees upon receipt of cash. Typically, success fees are contractually due upon a change of control in a portfolio company. We recorded an aggregate of $1.4 million of success fees during the year ended March 31, 2015, which resulted from prepayments from Auto Safety House LLC ("ASH"), Drew Foam Company, Inc. ("Drew Foam"), Frontier Packaging, Inc. ("Frontier"), Mathey Investments, Inc. ("Mathey"), SOG Specialty Knives and Tools, LLC ("SOG"), and Star Seed, Inc. ("Star Seed"). We recorded an aggregate of $4.2 million of success fees during the year ended March 31, 2014, which resulted from debt exits or prepayments from Cavert II Holding Group ("Cavert"), Channel Technologies Group LLC ("Channel"), Frontier, Mathey, SOG, and Venyu Solutions, Inc. ("Venyu"). We recorded an aggregate of $0.8 million of success fees during the year ended March 31, 2013, which resulted from prepayments received from Cavert and Mathey.

We accrue dividend income on preferred securities to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash or other consideration. For the year ended March 31, 2015, we recorded an aggregate of $3.5 million in dividend income, which resulted from payments from Drew Foam, Frontier, Funko, LLC ("Funko"), Mathey, and SOG. For the year ended March 31, 2014, we recorded $1.4 million in dividend income, which resulted from the exit of Venyu. We recorded an aggregate of $4.8 million in dividend income during the year ended March 31, 2013, which resulted from payments from Acme Cryogenics, Inc. ("Acme") and Galaxy Tool Holding Corporation ("Galaxy").

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

Cash and Cash Equivalents

We consider all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of three months or less at the time of purchase to be cash equivalents. Cash is carried at cost, which approximates fair value. We place our cash with financial institutions, and at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit. We seek to mitigate this concentration of credit risk by depositing funds with major financial institutions.

Restricted Cash and Cash Equivalents

Restricted cash is cash held in escrow that was generally received as part of an investment exit. Restricted cash is carried at cost, which approximates fair value.

Deferred Financing Costs

Deferred financing costs consist of costs incurred to obtain financing, including legal fees, origination fees and administration fees. Costs associated with our line of credit and the issuance of our mandatorily redeemable preferred stock, are deferred and 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 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, loan servicing fee, and an incentive fee.

We have entered into an administration agreement (the "Administration Agreement") with the Administrator 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 costs and agreements.

Federal Income Taxes

We intend to continue to qualify for treatment as a RIC under subchapter M of the Code, which generally allows us to avoid paying corporate income taxes on any income or gains that we distribute to our stockholders. We intend to continue to distribute sufficient dividends to eliminate taxable income. Refer to Note 10— *Federal and State Income Taxes* for additional information regarding our RIC requirements.

We have certain wholly-owned taxable subsidiaries (the "Taxable Subsidiaries"), each of which holds one or more of our portfolio investments that are listed on our accompanying *Consolidated Schedules of Investments*. The purpose of the Taxable Subsidiaries is to permit us to hold certain portfolio companies that are organized as limited liability companies ("LLCs") (or other forms of pass-through entities) while satisfying the RIC tax requirement that at least 90% of the RIC's gross revenue for income tax purposes must consist of qualifying investment income. When LLCs (or other pass-through entities) are owned by the Taxable Subsidiaries, their income is taxed to the Taxable Subsidiaries and does not flow through to the RIC, thereby helping us preserve our RIC status. The Taxable Subsidiaries are not consolidated for income tax purposes and may generate income tax expense as a result of their ownership of the portfolio companies. This income tax expense is considered immaterial and, therefore, it is not recorded on our accompanying *Consolidated Statements of Operations*.

ASC 740, "*Income Taxes*" requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authorities. Tax positions not deemed to satisfy the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current fiscal year. We have evaluated the implications of ASC 740, for all open tax years and in all major tax jurisdictions, and determined that there is no material impact on our accompanying *Consolidated Financial Statements*. Our federal tax returns for fiscal years 2014, 2013, and 2012 remain subject to examination by the Internal Revenue Service ("IRS").

Distributions

Distributions to stockholders are recorded on the ex-dividend date. We are required to pay out at least 90% of our "investment company taxable income," which is generally our net ordinary income plus the excess of our net short-term capital gains over net long-term capital losses for each taxable year as a distribution to our stockholders in order to maintain our ability to be taxed as a RIC under Subchapter M of the Code. It is our policy to pay out as a distribution up to 100% of those amounts. The amount to be paid is determined by our Board of Directors each quarter and is based on the annual earnings estimated by our management. Based on that estimate, a distribution is declared each quarter and is paid out monthly over the course of the respective quarter. At fiscal year-end, we elected to treat a portion of the first distribution paid after year-end as having been paid in the prior year, in accordance with Section 855(a) of the Code. Additionally, we may pay a special distribution in addition to the monthly distributions to ensure that we have paid out at least 90% of our investment company taxable income for the year. We typically retain long-term capital gains, if any, and do not pay them out as distributions. If we decide to retain long-term capital gains, the portion of the retained capital gains, net of any capital loss carryforward, if applicable, will be subject to a 35.0% tax.

Refer to Note 9—*Distributions to Common Stockholders* for further information. We have a dividend reinvestment plan for our common stockholders. This is an "opt in" dividend reinvestment plan, meaning that common stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Common stockholders who do not so elect will receive their dividends 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 plan agent purchases shares in the open market in connection with the obligations under the plan. We do not have a dividend reinvestment plan for our preferred stock stockholders.

Recent Accounting Pronouncements

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. We are currently assessing the impact of ASU 2015-03 and do not anticipate a material impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those years, with early adoption permitted.

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 new standard changes the way a reporting entity evaluates whether a) limited partnerships and similar entities should be consolidated, b) fees paid to decision makers or service provides are variable interests in a variable interest entity ("VIE"), and c) variable interests in a VIE held by related parties require the reporting entity to consolidate the VIE. ASU 2015-02 also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. We do not anticipate ASU 2015-02 to 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, 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 the annual period ending after December 31, 2016 and for annual periods 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"), 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 and anticipate no impact on our financial position, results of operations or cash flows from adopting this standard. ASU 2014-09 is effective for annual reporting periods that begin after December 15, 2016 and interim periods within those years, with early adoption not permitted.

In June 2013, the FASB issued Accounting Standards Update 2013-08, "*Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*" ("ASU 2013-08"), which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so there was no impact from adopting this standard on our financial position or results of operations. We adopted ASU 2013-08 beginning with our quarter ended June 30, 2014, and have increased our disclosure requirements as necessary.

NOTE 3. INVESTMENTS

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.

As of March 31, 2015 and 2014, all of our investments were valued using Level 3 inputs. 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 years ended March 31, 2015 and 2014, there were no transfers in or out of Level 1, 2 and 3.

The following table presents the financial assets carried at fair value as of March 31, 2015 and 2014, by caption on our accompanying *Consolidated Statements of Assets and Liabilities* and by security type for each of the three applicable levels of hierarchy established by ASC 820 that we used to value our financial assets:

	Total Recurring Fair Value Measurements Reported in *Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3) As of March 31, 2015	2014
Non-Control/Non-Affiliate Investments		
Senior secured debt	**$ 76,789**	$ 109,479
Senior subordinated secured debt	**36,133**	52,907
Preferred equity	**40,217**	32,259
Common equity/equivalents	**21,234**	10,795
Total Non-Control/Non-Affiliate Investments	**174,373**	205,440
Affiliate Investments		
Senior secured debt	**181,452**	60,391
Senior subordinated secured debt	**18,725**	2,400
Preferred equity	**70,873**	25,058
Total Affiliate Investments	**271,050**	87,849
Control Investments		
Senior secured debt	**4,900**	—
Senior subordinated secured debt	**15,520**	15,520
Preferred equity	**—**	5,584
Common equity/equivalents	**210**	—
Control Investments	**20,630**	21,104
Total Investments and Cash Equivalents	**$ 466,053**	**$ 314,393**

In accordance with ASU 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Reporting Standards ("IFRS")*, ("ASU 2011-04"), the following table provides quantitative information about our Level 3 fair value measurements of our investments as of March 31, 2015 and 2014. 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 March 31, 2015	**Fair Value as of March 31, 2014**	**Valuation Technique/ Methodology**	**Unobservable Input**	**Range / Weighted Average as of March 31, 2015**	**Range / Weighted Average as of March 31, 2014**
Senior secured debt (A)	**$ 220,750**	$ 115,081	TEV	EBITDA multiples	4.4x –18.2x / 6.9x	4.6x – 7.3x / 5.6x
				EBITDA	$712 – $5,871 / $3,302	$1,558 – $6,230 / $3,609
	42,391	54,789	Yield Analysis	Discount Rate	7.4% -13.7% /12.6%	7.6% – 30.0% / 19.2%
Senior subordinated secured debt (B)	**49,142**	49,470	TEV	EBITDA multiples	4.2x – 7.0x / 5.8x	4.1x – 7.3x / 5.0x
				EBITDA	$1,135 – $5,462 / $2,834	$36 – $6,156 / $4,159
	21,236	21,357	Yield Analysis	Discount Rate	5.0% – 20.5% / 14.4%	12.8% – 12.8% / 12.8%
Preferred equity(C)	**111,090**	62,901	TEV	EBITDA multiples	3.6x – 18.2x / 6.6x	3.5x – 8.5x / 5.1x
				EBITDA	$712 – $29,235 / $3,749	$36 – $10,621 / $4,266
Common equity/equivalents	**21,444**	10,795	TEV	EBITDA multiples	3.6x – 18.2x / 9.4x	3.4x – 16.0x / 10.5x
				EBITDA	$712 – $15,240 / $9,149	$36 – $10,621 / $6,008
Total	**$ 466,053**	$ 314,393				

(A) March 31, 2015 includes two new proprietary debt investments for a combined $34.2 million, which were valued at cost. March 31, 2014 includes two new proprietary debt investments for a combined $19.1 million, which were valued at cost.

(B) March 31, 2014 includes one new proprietary debt investment for $2.4 million, which was valued at cost.

(C) March 31, 2015 includes two new proprietary equity investments for a combined $8.5 million, which were valued at cost. March 31, 2014 includes two new proprietary equity investments for a combined $7.4 million, which were valued at cost.

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

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 years ended March 31, 2015 and 2014 for all investments for which the Adviser determines fair value using unobservable (Level 3) factors.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Senior Secured Debt	Senior Subordinated Secured Debt	Preferred Equity	Common Equity/ Equivalents	Total
Year ended March 31, 2015:					
Fair value as of March 31, 2014	**$ 169,870**	**$ 70,827**	**$ 62,901**	**$ 10,795**	**$314,393**
Total gain (loss):					
Net realized (loss) gain(A)	—	—	—	—	—
Net unrealized appreciation (depreciation)(B)	5,056	(4,038)	18,525	10,397	29,940
Reversal of previously-recorded depreciation (appreciation) upon realization(B)	—	—	—	—	—
New investments, repayments and settlements(C):					
Issuances / originations	96,693	6,661	27,724	1,902	132,980
Settlements / repayments	(8,128)	(3,072)	(60)	—	(11,260)
Sales	—	—	—	—	—
Transfers(D)	(350)	—	2,000	(1,650)	—
Fair Value as of March 31, 2015	**$ 263,141**	**$ 70,378**	**$111,090**	**$ 21,444**	**$466,053**

	Senior Secured Debt	Senior Subordinated Secured Debt	Preferred Equity	Common Equity/ Equivalents	Total
Year ended March 31, 2014:					
Fair value as of March 31, 2013	$ 103,882	$ 86,811	$ 82,157	$ 13,632	$286,482
Total (loss) gain:					
Net realized (loss) gain(A)	(2,856)	(6,050)	18,806	(1,659)	8,241
Net unrealized appreciation (depreciation)(B)	3,165	(660)	(25,000)	(5,921)	(28,416)
Reversal of previously-recorded depreciation (appreciation) upon realization(B)	2,274	5,874	(10,644)	1,706	(790)
New investments, repayments and settlements(C):					
Issuances / originations	88,267	11,818	32,067	139	132,291
Settlements / repayments	(24,862)	(26,966)	—	—	(51,828)
Sales	—	—	(31,535)	(52)	(31,587)
Transfers(D)	—	—	(2,950)	2,950	—
Fair Value as of March 31, 2014	**$ 169,870**	**$ 70,827**	**$ 62,901**	**$ 10,795**	**$314,393**

(A) Included in net realized gain (loss) on investments on our accompanying *Consolidated Statements of Operations* for the years ended March 31, 2015 and 2014.

(B) Included in net unrealized appreciation (depreciation) of investments on our accompanying *Consolidated Statements of Operations* for the years ended March 31, 2015 and 2014.

(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) 2015: Transfers represent $2.0 million of senior secured debt of B-Dry, LLC (“B-Dry”), which was converted into preferred equity, and $1.7 million of common equity of Roanoke Industries Corp., which was converted to senior secured term debt.

2014: Transfers represent $3.0 million of preferred equity of Quench Holding Corp. (“Quench”), which was converted into common equity during the quarter ended December 31, 2013.

Investment Activity

During the year ended March 31, 2015, the following significant transactions occurred:

- In May 2014, NDLI Acquisition, Inc. ("NDLI"), one of our portfolio companies, completed the purchase of certain of Noble Logistics, Inc.'s ("Noble") assets, one of our other portfolio companies, out of bankruptcy.
- In August 2014, we made a $1.8 million equity investment in Roanoke Industries Corp. ("Roanoke"), formerly known as Tread Real Estate Corp., which purchased the building owned by another one of our portfolio companies, Tread Corporation ("Tread"). This building has subsequently been leased back to Tread
- In September 2014, we invested $20.2 million in Cambridge Sound Management, Inc. ("Cambridge") through a combination of secured debt and equity. Cambridge, based in Waltham, Massachusetts, is the developer of sound systems and solutions.
- In October 2014, we invested $24.4 million in Old World Christmas, Inc. ("Old World") through a combination of secured debt and equity. Old World, headquartered in Spokane, Washington, is a designer and distributor of an extensive collection of blown glass Christmas ornaments, table top figurines, vintage-style light covers and nostalgic greeting cards into the independent gift channel.
- In December 2014, we invested $19.6 million in B+T Group Acquisition Inc. ("B+T") through a combination of secured debt and equity. B+T, headquartered in Tulsa, Oklahoma, is a full-service provider of structural engineering, construction, and technical services to the wireless tower industry for tower upgrades and modifications. Gladstone Capital Corporation ("Gladstone Capital"), an affiliated fund of ours, also participated as a co-investor by providing $8.4 million of debt and equity financing at the same price and terms as our investment.
- In December 2014, B-Dry, LLC ("B-Dry") was restructured, resulting in $2.0 million of secured debt being converted into preferred equity.
- In March 2015, we invested $10.8 million in Logo Sportswear, Inc. ("Logo") through a combination of secured debt and equity. Logo, headquartered in Cheshire, Connecticut, is an online provider of user-customized uniforms and apparel for teams, leagues, schools, businesses and organizations.
- In March 2015, we invested $32.0 million in Counsel Press, Inc. ("Counsel Press") through a combination of secured debt and equity. Counsel Press, headquartered in New York, New York, provides expert assistance in preparing, filing, and serving appeals in state and federal appellate courts nationwide and several international tribunals.

Investment Concentrations

As of March 31, 2015, our investment portfolio consisted of investments in 34 portfolio companies located in 16 states across 18 different industries with an aggregate fair value of $466.1 million, of which our investments in Counsel Press, SOG, Funko, Acme and Old World, our five largest portfolio investments at fair value, collectively comprised $134.3 million, or 28.8%, of our total investment portfolio at fair value.

The following table summarizes our investments by security type as of March 31, 2015 and 2014:

	March 31, 2015				March 31, 2014			
	Cost		Fair Value		Cost		Fair Value	
Senior secured debt	**$284,509**	**56.3%**	**$263,141**	**56.5%**	$196,293	51.2%	$169,870	54.0%
Senior subordinated secured debt	**85,937**	**17.0**	**70,378**	**15.1**	82,348	21.5	70,827	22.5
Total debt	**370,446**	**73.3**	**333,519**	**71.6**	278,641	72.7	240,697	76.5
Preferred equity	**127,762**	**25.3**	**111,090**	**23.8**	98,099	25.6	62,901	20.0
Common equity/equivalents	**7,050**	**1.4**	**21,444**	**4.6**	6,797	1.7	10,795	3.5
Total equity/equivalents	**134,812**	**26.7**	**132,534**	**28.4**	104,896	27.3	73,696	23.5
Total Investments	**$505,258**	**100.0%**	**$466,053**	**100.0%**	$383,537	100.0%	$314,393	100.0%

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Investments at fair value consisted of the following industry classifications as of March 31, 2015 and 2014:

	March 31, 2015		March 31, 2014	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Home and Office Furnishings, Housewares, and Durable Consumer Products	**$ 70,533**	**15.1%**	$ 21,188	6.7%
Diversified/Conglomerate Manufacturing	**62,996**	**13.5**	54,845	17.4
Chemicals, Plastics, and Rubber	**49,312**	**10.6**	52,753	16.8
Leisure, Amusement, Motion Pictures, Entertainment	**44,931**	**9.6**	39,867	12.7
Diversified/Conglomerate Service	**31,995**	**6.9**	—	—
Machinery (Non-agriculture, Non-construction, Non-electronic)	**30,397**	**6.5**	25,917	8.2
Personal and Non-Durable Consumer Products (Manufacturing Only)	**25,008**	**5.4**	10,005	3.2
Automobile	**24,530**	**5.3**	25,735	8.2
Farming and Agriculture	**22,438**	**4.8**	20,557	6.5
Containers, Packaging, and Glass	**19,447**	**4.2**	17,889	5.7
Telecommunications	**19,241**	**4.1**	—	—
Aerospace and Defense	**18,770**	**4.0**	18,512	5.9
Cargo Transport	**13,972**	**3.0**	6,500	2.1
Beverage Food and Tobacco	**12,982**	**2.8**	13,050	4.2
Textiles and Leather	**10,750**	**2.3**	—	—
Buildings and Real Estate	**1,860**	**0.4**	7,575	2.4
Other < 2.0%	**6,891**	**1.5**	—	—
Total Investments	**$466,053**	**100.0%**	$314,393	100.0%

Investments at fair value were included in the following geographic regions of the U.S. as of March 31, 2015 and 2014:

	March 31, 2015		March 31, 2014	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
West	**$161,444**	**34.6%**	$117,781	37.5%
Northeast	**133,814**	**28.7**	67,862	21.6
South	**133,703**	**28.7**	89,915	28.6
Midwest	**37,092**	**8.0**	38,835	12.3
Total Investments	**$466,053**	**100.0%**	$314,393	100.0%

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

Investment Principal Repayments

The following table summarizes the contractual principal repayments and maturity of our investment portfolio for the next five fiscal years and thereafter, assuming no voluntary prepayments, as of March 31, 2015:

		Amount
For the fiscal years ending March 31:	2016	$ 19,567
	2017	43,861
	2018	100,316
	2019	81,681
	2020	115,403
	Thereafter	9,618
	Total contractual repayments	**$370,446**
	Investments in equity securities	134,812
	Total Cost Basis of Investments Held as of March 31, 2015:	**$505,258**

Receivables from Portfolio Companies

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies and are included in other assets on our accompanying *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 charge the accounts receivable to the established allowance when collection efforts have been exhausted and the receivables are deemed uncollectible. As of March 31, 2015 and 2014, we had gross receivables from portfolio companies of $1.5 million and $1.2 million, respectively. The allowance for uncollectible receivables was $349 and $44 as of March 31, 2015 and 2014, respectively.

NOTE 4. RELATED PARTY TRANSACTIONS

Investment Advisory and Management Agreement

In accordance with the Advisory Agreement, we pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee, loan servicing fee and an incentive fee, each as described below. On July 15, 2014, 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, 2015.

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

	Year Ended March 31,		
	2015	**2014**	**2013**
Average total assets subject to base management fee(A)	**$378,450**	$310,350	$270,600
Multiplied by annual base management fee of 2%	**2.0%**	2.0%	2.0%
Base management fee(B)	**7,569**	6,207	5,412
Credits to fees from Adviser—other(B)(C)	**(2,848)**	(2,309)	(1,107)
Net base management fee	**$ 4,721**	$ 3,898	$ 4,305
Loan servicing fee(B)	**4,994**	4,326	3,725
Credits to base management fee—loan servicing fee(B)	**(4,994)**	(4,326)	(3,725)
Net loan servicing fee	**$ —**	$ —	$ —
Incentive fee(B)	**4,975**	3,983	2,585
Credits to fees from Adviser—other(B)(D)	**—**	—	(221)
Net incentive fee	**$ 4,975**	$ 3,983	$ 2,364

(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 Statement of Operations*. For the year ended March 31, 2013, the credits to incentive fee and the credits to base management fee are combined into one line item, Credits to fees from Adviser — other, on the accompanying *Consolidated Statement of Operations*.

(C) 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 other agreements and may receive fees for services other than managerial assistance. The Adviser generally credits 100.0% 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 is retained by the Adviser.

(D) Our Board of Directors accepted an unconditional and irrevocable voluntary credit from the Adviser to reduce the income-based incentive fee to the extent net investment income did not 100.0% cover distributions to common stockholders for the year ended March 31, 2013.

Base Management Fee

The base management fee is computed and generally payable quarterly to the Adviser 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 other 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 generally voluntarily 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, primarily for the valuation of portfolio companies, is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser.

Loan Servicing Fee

The Adviser also services the loans held by our wholly-owned subsidiary, Business Investment, in return for which the Adviser receives a 2.0% annual fee based on the monthly aggregate outstanding balance of loans pledged under our revolving line of credit. These loan servicing fees are 100% credited back to us by the Adviser. Overall, the base management fee, inclusive of the loan servicing fee, due to the Adviser cannot exceed 2.0% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given calendar year.

Incentive Fee

The incentive fee consists of two parts: an income-based incentive fee and a capital gains-based incentive fee. The income-based incentive fee rewards the Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the "hurdle rate"). The income-based incentive fee with respect to our pre-incentive fee net investment income is generally 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 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 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 March 31, 2015, 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 year. GAAP requires that the capital gains-based incentive fee accrual consider the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that 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 March 31, 2015.

Our Board of Directors accepted an unconditional and irrevocable voluntary credit from the Adviser to reduce the income-based incentive fee to the extent net investment income did not cover 100% of the distributions to common stockholders for the year ended March 31, 2013, which credit totaled $0.2 million. There have been no incentive fee credits from the Adviser for the years ended March 31, 2015 and 2014

Administration Agreement

The Administration Agreement provides for payments equal to our allocable portion of the Administrator's expenses incurred while performing services to us, which are primarily rent and salaries and benefits expenses of the Administrator's employees, including our chief financial officer and treasurer, chief accounting officer, chief compliance officer and general counsel and secretary (who also serves as the Administrator's president) and their respective staff. Prior to July 1, 2014, our allocable portion of the expenses were generally derived by multiplying that portion of the Administrator's expenses allocable to all funds managed by the Adviser by the percentage of our total assets at the beginning of each quarter in comparison to the total assets at the beginning of each quarter of all funds managed by the Adviser.

Effective July 1, 2014, our allocable portion of the Administrator's expenses are 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 15, 2014, our Board of Directors approved the annual renewal of the Administration Agreement through August 31, 2015.

Related Party Fees Due

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

	As of March 31,	
	2015	**2014**
Base management fee due to Adviser	**$ 191**	$ 63
Incentive fee due to Adviser	**1,249**	1,161
Other due to Adviser	**62**	1
Total fees due to Adviser	**1,502**	1,225
Fee due to Administrator	**262**	224
Total Related Party Fees Due	**$1,764**	$1,449

Net co-investment expenses payable to Gladstone Capital (for reimbursement purposes) and payables to other affiliates totaled $305 and $41 as of March 31, 2015 and 2014, respectively. These expenses were paid in full subsequent to fiscal year end and have been included in other liabilities on the accompanying *Consolidated Statements of Assets and Liabilities* as of March 31, 2015 and 2014.

NOTE 5. BORROWINGS

Line of Credit

On June 26, 2014, we, through our wholly-owned subsidiary, Business Investment, entered into Amendment No. 1 to the Fifth Amended and Restated Credit Agreement originally entered into on April 30, 2013, with Key Equipment Finance, a division of KeyBank National Association ("KeyBank"), as administrative agent, lead arranger and lender; other lenders; and the Adviser, as servicer, to extend the revolving period and reduce the interest rate of our revolving line of credit (our "Credit Facility"). The revolving period was extended 14 months to June 26, 2017, and if not renewed or extended by June 26, 2017, all principal and interest will be due and payable on or before June 26, 2019 (two years after the revolving period end date). In addition, we have retained the two one-year extension options, to be agreed upon by all parties, which may be exercised on or before June 26, 2015 and 2016, respectively, and upon exercise, the options would extend the revolving period to June 26, 2018 and 2019 and the maturity date to June 26, 2020 and 2021, respectively. Subject to certain terms and conditions, 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, down from 3.75% prior to the amendment, 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. We incurred fees of $0.4 million in connection with this amendment, which are being amortized through our Credit Facility's revolver period end date of June 26, 2017.

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, which are being amortized through our Credit Facility's revolver period end date of June 26, 2017.

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

	As of March 31,	
	2015	2014
Commitment amount	**$185,000**	$105,000
Borrowings outstanding at cost	**118,800**	61,250
Availability	**66,200**	43,750

	For the Years Ended March 31,		
	2015	2014	2013
Weighted average borrowings outstanding	**$79,158**	$34,632	$15,533
Effective interest rate(A)	**3.98%**	4.90%	5.49%
Commitment (unused) fees incurred	**$ 347**	$ 318	$ 225

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

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 and with The Bank of New York Mellon Trust Company, N.A as custodian. 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 certain material changes to our credit and collection policies without the lenders' consent. Our Credit Facility also generally seeks to restrict distributions on our common stock to 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 apply toward available credit in the borrowing base, including restrictions on geographic concentrations, sector concentrations, loan size, payment frequency and status, average life and lien property. Our Credit Facility further requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of obligors required in the borrowing base of the credit agreement. Additionally, we are subject to a performance guaranty that requires us to maintain (i) a minimum net worth (defined in our Credit Facility to include our mandatory redeemable term preferred stock) of $170 million plus 50% of all equity and subordinated debt raised minus any equity or subordinated debt redeemed or retired after June 26, 2014, which equates to $202.9 million as of March 31, 2015, (ii) "asset coverage" with respect to "senior securities representing indebtedness" of at least 200%, in accordance with Section 18 of the 1940 Act and (iii) its status as a BDC under the 1940 Act and as a RIC under the Code. As of March 31, 2015, and as defined in the performance guaranty of our Credit Facility, we had a net worth of $354.8 million, an asset coverage of 229.9% 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 March 31, 2015, Business Investment had 27 obligors. As of March 31, 2015, 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 that effectively limit the interest rate on a portion of our borrowings under the line of credit pursuant to the terms of our Credit Facility. The agreement, which expires April 2016, provides that the interest rate on $45.0 million of our borrowings is capped at 6.0%, plus 3.25% per annum, when 30-day LIBOR is in excess of 6.0%. We incurred a premium fee of $75 in conjunction with this agreement, which is recorded in other assets on our accompanying *Consolidated Statements of Assets and Liabilities*. At each of March 31, 2015 and 2014, 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 senior subordinated term debt investment in Ginsey Home Solutions, Inc. ("Ginsey"). In May 2014, we amended the agreement with the third-party to include an additional $0.1 million. Accounting Standards Codification Topic 860, "*Transfers and Servicing*" ("ASC 860") requires us to treat the participation as a financing-type transaction. Specifically, the third-party has a senior claim to our remaining investment in the event of default by Ginsey which, in part, resulted in the loan participation bearing a rate of interest lower than the contractual rate established at origination. Therefore, our accompanying *Consolidated Statements of Assets and Liabilities* reflects the entire senior subordinated secured term debt investment in Ginsey and a corresponding $5.1 million secured borrowing liability. The secured borrowing has a stated interest rate of 7.0% and a maturity date of January 3, 2018.

Fair Value

We elected to apply the fair value option of ASC 825, "*Financial Instruments*," specifically for 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 each of March 31, 2015 and 2014, the discount rate used to determine the fair value of our Credit Facility was 3.7% and 4.2%, respectively. Generally, an increase or decrease in the discount rate used in the DCF calculation may result in a corresponding increase or decrease, respectively, in the fair value of our Credit Facility. At each of March 31, 2015 and 2014, 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*.

The following tables present our Credit Facility carried at fair value as of March 31, 2015 and 2014, 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 years ended March 31, 2015 and 2014:

	Total Recurring Fair Value Measurement Reported in *Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3) As of March 31,	
	2015	**2014**
Credit Facility	**$ 118,800**	$ 61,701

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

	Short-Term Loan	**Credit Facility**	**Total Fair Value Reported in *Consolidated Statements of Assets and Liabilities***
Year ended March 31, 2015:			
Fair value as of March 31, 2014	$ —	**$ 61,701**	**$ 61,701**
Borrowings	—	**144,549**	**144,549**
Repayments	—	**(87,000)**	**(87,000)**
Net unrealized depreciation(A)	—	**(450)**	**(450)**
Fair value as of March 31, 2015	$ —	**$ 118,800**	**$ 118,800**
Year ended March 31, 2014:			
Fair value as of March 31, 2013	$ 58,016	$ 31,854	$ 89,870
Borrowings	56,514	145,350	201,864
Repayments	(114,530)	(115,100)	(229,630)
Net unrealized depreciation(A)	—	(403)	(403)
Fair value as of March 31, 2014	$ —	$ 61,701	$ 61,701

(A) Included in net unrealized (depreciation) appreciation on our accompanying *Consolidated Statement of Operations* for the years ended March 31, 2015 and 2014.

The fair value of the collateral under our Credit Facility was $435.9 million and $288.6 million as of March 31, 2015 and 2014, respectively.

NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK

In November 2014, we completed a public offering of 1,656,000 shares of 6.75% Series B Cumulative Term Preferred Stock (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 expenses borne by us, were $39.7 million. We incurred $1.7 million in total offering costs related to these transactions, which have been recorded as deferred financing costs on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending December 31, 2021, the mandatory redemption date.

The shares of Series B Term Preferred Stock are traded under the ticker symbol GAINO on the NASDAQ Global Select Market ("NASDAQ"). 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. 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, (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. We may also voluntarily redeem all or a portion of our Series B Term Preferred Stock at our sole option at the redemption price in order to have an asset coverage ratio of up to and including 215.0% and at any time on or after December 31, 2017.

In March 2012, we completed a public offering of 1,600,000 shares of 7.125% Series A Cumulative Term Preferred Stock (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 expenses borne by us, were $38.0 million. We incurred $2.0 million in total offering costs related to these transactions, which have been recorded as deferred financing costs on our accompanying *Consolidated Statements of Assets and Liabilities* and will be amortized over the redemption period ending February 28, 2017, the mandatory redemption date.

The Series A Term Preferred Stock has a redemption date of February 28, 2017, and is traded under the ticker symbol GAINP on the NASDAQ Global Select Market. The Series A Term Preferred Stock is not convertible into our common stock or any other security. The Series A Term Preferred Stock provides for a fixed dividend equal to 7.125% per year, payable monthly. We are required to redeem all of the outstanding shares of our 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, but excluding, the date of redemption. In addition, three other potential 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 the outstanding Series A Term Preferred Stock, (2) if we fail to maintain an asset coverage ratio of at least 200%, we are required to redeem a portion of the outstanding Series A Term Preferred Stock or otherwise cure the ratio redemption trigger and (3) at our sole option, at any time on or after February 28, 2016, we may redeem some or all of the Series A Term Preferred Stock.

For the years ended March 31, 2015, 2014, and 2013 our Board of Directors declared and we paid a monthly dividend of $0.1484375 per share, or $1.78125 per share in aggregate, to holders of our Series A Term Preferred Stock. For the year ended March 31, 2015, our Board of Directors declared and we paid dividends for the pro-rated month of November 2014 (based on the number of days between the issuance date and November 30, 2014) and all full months from December 2014 through March 2015, that totaled $0.703125 per share to holders of our Series B Term Preferred Stock. The tax character of dividends paid by us to preferred stockholders generally constitute ordinary income to the extent of our current and accumulated earnings and profits.

In accordance with ASC 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 term preferred stock at cost as of March 31, 2015 and 2014. The related distribution payments to preferred stockholders are treated as dividend expense on our statement of operations as of the ex-dividend date. For disclosure purposes, the fair value of our Series A Term Preferred Stock, which we consider to be a Level 1 liability within the fair value hierarchy, based on the last reported closing sale price as of March 31, 2015 and 2014, was $41.5 million and $42.4 million, respectively. The fair value of our Series B Term Preferred Stock, which we consider to be a Level 1 liability within the fair value hierarchy, based on the last reported closing sale price as of March 31, 2015, was $42.2 million.

Refer to Note 15 – *Subsequent Events* for information regarding the recent offering of our newly designated and issued 6.50% Series C Cumulative Term Preferred Stock ("Series C Term Preferred Stock") subsequent to March 31, 2015.

NOTE 7. COMMON STOCK

Registration Statement

We filed a registration statement on Form N-2 (File No. 333-181879) with the SEC on June 4, 2012, and subsequently filed a Pre-Effective Amendment No. 1 to the registration statement on July 17, 2012, which the SEC declared effective on July 26, 2012. On June 7, 2013, we filed Post-Effective Amendment No. 2 to the registration statement, which the SEC declared effective on July 26, 2013. On June 3, 2014, we filed Post-Effective Amendment No. 3 to the registration statement, and subsequently filed a Post-Effective Amendment No. 4 to the registration statement on September 2, 2014, which the SEC declared effective on September 4, 2014. 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 a combined offering of two or more of such securities. We currently have the ability to issue up to $117.3 million in securities under the registration statement.

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On March 13, 2015, we completed a public offering of 3.3 million shares of our common stock at a public offering price of $7.40 per share, which was below our then current NAV per share. Gross proceeds totaled $24.4 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately $23.0 million, which was used to repay borrowings under our Credit Facility. Refer to Note 15 – *Subsequent Events* for additional information regarding shares issued pursuant to the underwriters' overallotment option occurring subsequent to March 31, 2015.

On October 5, 2012, we completed a public offering of 4.0 million shares of our common stock at a public offering price of $7.50 per share, which was below our then current NAV per share. Gross proceeds totaled $30.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were approximately $28.3 million, which was used to repay borrowings under our Credit Facility. In connection with the offering, the underwriters exercised their option to purchase an additional 395,825 shares at the public offering price to cover over-allotments, which resulted in gross proceeds of $3.0 million and net proceeds, after deducting underwriting discounts, of approximately $2.8 million.

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

The following table sets forth the computation of basic and diluted net increase (decrease) in net assets resulting from operations per common share for the years ended March 31, 2015, 2014, and 2013:

	Year Ended March 31,		
	2015	**2014**	**2013**
Numerator for basic and diluted-net increase (decrease) in net assets resulting from operations per common share	**$ 50,214**	$ (1,329)	$ 17,279
Denominator for basic and diluted-weighted average common shares	**26,665,821**	26,475,958	24,189,148
Basic and diluted net increase (decrease) in net assets resulting from operations per common share	**$ 1.88**	$ (0.05)	$ 0.71

NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS

To qualify to be taxed as a RIC, we are required to distribute to our common stockholders 90% of our investment company taxable income. The amount to be paid out as distributions to our stockholders is determined by our Board of Directors quarterly and is based on management's estimate of the investment company taxable income. Based on that estimate, our Board of Directors declares three monthly common distributions each quarter.

The federal income tax characteristics of all distributions (including preferred stock dividends) will be reported to stockholders on the Internal Revenue Service Form 1099 at the end of each calendar year. For calendar years ended December 31, 2014, 2013 and 2012, 100% of our common distributions during these periods were deemed to be paid from ordinary income for 1099 stockholder reporting purposes.

We paid the following monthly distributions to common stockholders for the years ended March 31, 2015 and 2014:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Common Share
2015	April 16, 2014	April 21, 2014	April 30, 2014	**$ 0.060**
	May 16, 2014	May 20, 2014	May 30, 2014	**0.060**
	June 17, 2014	June 19, 2014	June 30, 2014	**0.060**
	July 23, 2014	July 25, 2014	August 5, 2014	**0.060**
	August 18, 2014	August 20, 2014	August 29, 2014	**0.060**
	September 17, 2014	September 19, 2014	September 30, 2014	**0.060**
	October 20, 2014	October 22, 2014	October 31, 2014	**0.060**
	November 13, 2014	November 17, 2014	November 26, 2014	**0.060**
	December 17, 2014	December 19, 2014	December 31, 2014	**0.050(A)**
	December 17, 2014	December 19, 2014	December 31, 2014	**0.060**
	January 21, 2015	January 23, 2015	February 3, 2015	**0.060**
	February 13, 2015	February 18, 2015	February 27, 2015	**0.060**
	March 18, 2015	March 20, 2015	March 31, 2015	**0.060**
			Year Ended March 31, 2015:	**$ 0.770**

2014	April 9, 2013	April 22, 2013	April 30, 2013	**$**	**0.050**
	April 9, 2013	May 20, 2013	May 31, 2013		**0.050**
	April 9, 2013	June 19, 2013	June 28, 2013		**0.050**
	July 9, 2013	July 17, 2013	July 31, 2013		**0.050**
	July 9, 2013	August 19, 2013	August 30, 2013		**0.050**
	July 9, 2013	September 16, 2013	September 30, 2013		**0.050**
	October 8, 2013	October 22, 2013	October 31, 2013		**0.060**
	October 8, 2013	November 14, 2013	November 29, 2013		**0.060**
	October 8, 2013	November 18, 2013	November 29, 2013		**0.050**(A)
	October 8, 2013	December 16, 2013	December 31, 2013		**0.060**
	January 7, 2014	January 22, 2014	January 31, 2014		**0.060**
	January 7, 2014	February 19. 2014	February 28, 2014		**0.060**
	January 7, 2014	March 17, 2014	March 31, 2014		**0.060**
			Year Ended March 31, 2014:	**$**	**0.710**

(A) A special distribution on our common stock of $0.05 per share was declared by our Board of Directors.

Aggregate distributions declared and paid to our common stockholders for the years ended March 31, 2015 and 2014 were $20.6 million and $18.8 million, respectively, and were declared based on estimates of net investment income for the respective fiscal years. For each of the years ended March 31, 2015 and 2014, taxable income available for common distributions exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $4.0 million and $3.9 million, respectively, of the first common distributions paid in fiscal year 2016 and 2015, respectively, as having been paid in the respective prior year.

The components of our net assets on a tax basis were as follows:

	Year Ended March 31,	
	2015	**2014**
Common stock	**$ 30**	$ 26
Capital in excess of par value	**309,438**	287,062
Cumulative unrealized depreciation of investments	**(39,204)**	(69,283)
Cumulative unrealized (depreciation) (appreciation) of other	**(75)**	(525)
Undistributed ordinary income	**4,002**	3,918
Capital loss carryforward	**(288)**	(216)
Other temporary differences	**(490)**	(163)
Other	**16**	18
Net Assets	**$273,429**	**$220,837**

We generally intend to retain some or all of our realized gains first to the extent we have available capital loss carryforwards and second, through a deemed distribution. As of March 31, 2015, we had $0.3 million of capital loss carryforwards that expire in 2018. We had no deemed distributions during the years ended March 31, 2015, 2014, and 2013.

For the years ended March 31, 2015 and 2014, we recorded the following adjustments for permanent book-tax differences to reflect tax character. Results of operations, net assets, and cash flows were not affected by these adjustments.

	Tax Year Ended March 31,	
	2015	**2014**
Undistributed net investment income	**$ 584**	**$ 416**
Accumulated net realized gain	—	**235**
Paid-in-capital	**(584)**	**(651)**

The tax character of distributions paid by us to common stockholders for the years ended March 31, 2015, 2014 and 2013 were 100.0% from ordinary income.

NOTE 10. FEDERAL AND STATE INCOME TAXES

We intend to continue to maintain our qualifications as a RIC 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 that we distribute to 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 also meet certain annual stockholder distribution requirements. To satisfy the RIC annual distribution requirement, we must distribute to stockholders at least 90% of our investment company taxable income. Our policy generally is to make distributions to our stockholders in amount up to 100% of our investment company taxable income. Because we have distributed more than 90% of our investment company taxable income, no income tax provisions have been recorded for the years ended March 31, 2015, 2014, and 2013.

In an effort to limit certain federal excise taxes imposed on RICs, we generally distribute during each calendar year, an amount at least equal to the sum of (1) 98% 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 for preceding years that were not distributed during such years. We incurred an excise tax of $0.1 million, $0.3 million, and $31 for the calendar years ended December 31, 2014, 2013 and 2012, respectively.

Under the RIC Modernization Act (the "RIC Act"), we are permitted to carry forward capital losses incurred in taxable years beginning after September 30, 2011, for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. 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 losses. Our capital loss carryforward balance as of March 31, 2015 and 2014 was $0.3 million and $0.2 million, respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are party to certain legal proceedings incidental to the normal course of our business, including the enforcement of our rights under contracts with our portfolio companies. 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 as of March 31, 2015, we have not established reserves for such loss contingencies.

Escrow Holdbacks

From time to time, we will enter into arrangements as it relates to exits of certain investments whereby specific amounts of the proceeds are held in escrow in order to be used to satisfy potential obligations as stipulated in the sales agreements. We record escrow amounts in restricted cash and cash equivalents on our accompanying *Consolidated Statements of Assets and Liabilities*. We establish a contingent liability against the escrow amounts if we determine that it is probable and estimable that a portion of the escrow amounts will not be ultimately received at the end of the escrow period. The aggregate contingent liability recorded against the escrow amounts was $0 and $35 as of March 31, 2015 and 2014, respectively.

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, but in all cases limited to the actual amount outstanding under Tread's senior credit facility. The actual amount outstanding under Tread's senior credit facility as of March 31, 2015 was $4.4 million. We estimate the fair value of the combined unused line of credit and other uncalled capital commitments as of March 31, 2015 and 2014 to be minimal.

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 some our portfolio companies. During the years ended March 31, 2015, 2014 and 2013, 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 minimal.

As of March 31, 2015, the following guaranties were outstanding:

- In February 2010, we executed a guarantee 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 and delivery of golf carts to customers. The guarantee was renewed in February 2012, 2013, 2014, and 2015 and will expire in February 2016, unless it is renewed again by us, CCE and Agricredit.

- In April 2010, we executed a guarantee of vendor recourse for up to $0.6 million in individual customer transactions (the "Recourse Facility") between Wells Fargo Financial Leasing, Inc. and CCE. The Recourse Facility provides CCE with the ability to provide vendor recourse up to a limit of $0.6 million on transactions with long-time customers who lack the financial history to qualify for third-party financing. The terms to maturity of these individual transactions range from October 2015 to October 2016.

As of March 31, 2014, the following guaranties were outstanding:

- In October 2008, we executed a guarantee of a vehicle finance facility agreement (the "Ford Finance Facility") between Ford Motor Credit Company ("Ford") and ASH. The Ford Finance Facility provides ASH with a line of credit of up to $0.5 million for component Ford parts used by ASH to build truck bodies under a separate contract. Ford retains title and ownership of the parts. The guarantee of the Ford Finance Facility will expire upon termination of the separate parts supply contract with Ford or upon replacement of us as guarantor.
- In February 2010, we executed the Floor Plan Facility between Agricredit and CCE. The Floor Plan Facility provides CCE with financing of up to $2.0 million to bridge the time and cash flow gap between the order and delivery of golf carts to customers. The guarantee was renewed in February 2012, 2013 and 2014.
- In April 2010, we executed the Recourse Facility for up to $2.0 million in individual customer transactions between Wells Fargo Financial Leasing, Inc. and CCE. The Recourse Facility provides CCE with the ability to provide vendor recourse up to a limit of $2.0 million on transactions with long-time customers who lack the financial history to qualify for third-party financing. The terms to maturity of these individual transactions ranged from October 2014 to October 2016.
- In October 2013, we executed a guarantee of a vehicle finance facility agreement (the "Compass Finance Facility") between Compass Bank and ASH. The Compass Finance Facility provides ASH with a line of credit of up to $0.3 million for component Ram parts used by ASH to build truck bodies under a separate contract. The guarantee expired upon maturity of the Compass Finance Facility on October 16, 2014.

The following table summarizes the dollar balance of unused line of credit and other uncalled capital commitments and guaranties as of March 31, 2015 and 2014:

	As of March 31,	
	2015	**2014**
Unused line of credit and other uncalled capital commitments	**$10,031**	$ 6,684
Guaranties	**2,593**	3,628
Total	**$12,624**	$10,312

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NOTE 12. FINANCIAL HIGHLIGHTS

	As of and for the Year Ended March 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Per Common Share Data:					
Net asset value, beginning of year(A)	**$ 8.34**	$ 9.10	$ 9.38	$ 9.00	$ 8.74
Income from investment operations(B)					
Net investment income	**0.75**	0.73	0.68	0.62	0.73
Net realized gain on investments and other	**—**	0.31	0.03	0.23	1.06
Net unrealized appreciation (depreciation) on investments and other	**1.13**	(1.09)	—	0.14	(1.05)
Total from investment operations	**1.88**	(0.05)	0.71	0.99	0.74
Effect of equity capital activity(B)					
Cash distributions to common stockholders(C)	**(0.77)**	(0.71)	(0.60)	(0.61)	(0.48)
Shelf registration offering costs	**(0.03)**	—	(0.08)	—	—
Net dilutive effect of equity offering(D)	**(0.22)**	—	(0.31)	—	—
Total from equity capital activity	**(1.02)**	(0.71)	(0.99)	(0.61)	(0.48)
Other, net(B)(E)	**(0.02)**	—	—	—	—
Net asset value at end of year(A)	**$ 9.18**	$ 8.34	$ 9.10	$ 9.38	$ 9.00
Per common share market value at beginning of year	**$ 8.27**	$ 7.31	$ 7.57	$ 7.79	$ 6.01
Per common share market value at end of year	**7.40**	8.27	7.31	7.57	7.76
Total return(F)	**11.96%**	24.26%	4.73%	5.58%	38.56%
Common stock outstanding at end of year(A)	**29,775,958**	26,475,958	26,475,958	22,080,133	22,080,133
Statement of Assets and Liabilities Data:					
Net assets at end of year	**$ 273,429**	$ 220,837	$ 240,963	$ 207,216	$ 198,829
Average net assets(G)	**229,350**	231,356	216,751	204,595	192,893
Senior Securities Data:					
Total borrowings, at cost	**$ 123,896**	$ 66,250	$ 94,016	$ 76,005	$ 40,000
Mandatorily redeemable preferred stock	**81,400**	40,000	40,000	40,000	—
Asset coverage ratio(H)	**230%**	298%	272%	268%	534%
Average coverage per unit(I)	**$ 2,301**	$ 2,978	$ 2,725	$ 2,676	$ 5,344
Ratios/Supplemental Data:					
Ratio of expenses to average net assets(J)	**12.90%**	10.20%	8.81%	5.71%	6.90%
Ratio of net expenses to average net assets(K)(L)	**9.48**	7.33	6.48	3.67	5.13
Ratio of net investment income to average net assets(M)	**8.68**	8.35	7.61	6.72	8.38

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

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

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

(D) In fiscal years ended March 31, 2015 and 2013, the dilution is the result of issuing common shares at a price below then current NAV.

(E) Represents the impact of the different share amounts (weighted average shares outstanding during the fiscal year and shares outstanding at the end of the fiscal year) in the per share data calculations and rounding impacts.

(F) Total return equals the change in the market value of our common stock from the beginning of the year, taking into account dividends 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*.

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

(H) As a BDC, we are generally required to maintain an asset coverage ratio (as defined in Section 18(h) of the 1940 Act) of at least 200% on our senior securities representing indebtedness and our senior securities that are stock. Our mandatorily redeemable preferred stock is a senior security that is stock.

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

(J) Ratio of expenses to average net assets is computed using expenses before credits from the Adviser. The ratio of expenses to average net assets for the twelve months ended March 31, 2014, 2013, 2012, and 2011 were revised from the previously reported ratios, which were 8.33%, 7.09%, 4.23%, and 5.48%, respectively. Refer to Note 2 – *Summary of Significant Accounting Policies* for additional information on the revision.

(K) Ratio of net expenses to average net assets is computed using total expenses, net of credits to the base management fee for the loan servicing fee and other credits from the Adviser.

(L) Had we not received any voluntary credits of fees due to the Adviser, the ratio of net expenses to average net assets would have been 12.90%, 10.20 %, 8.81%, 6.14%, and 7.75% for the fiscal years ended March 31, 2015, 2014, 2013, 2012, and 2011, respectively.

(M) Had we not received any voluntary credits of fees due to the Adviser, the ratio of net investment income to average net assets would have been 5.26%, 5.48%, 5.28%, 4.25%, and 5.76% for the fiscal years ended March 31, 2015, 2014, 2013, 2012, and 2011, respectively.

NOTE 13. SELECTED QUARTERLY DATA (UNAUDITED)

	Quarter Ended			
Year ended March 31, 2015	**June 30, 2014**	**September 30, 2014**	**December 31, 2014**	**March 31, 2015**
Total investment income	$ 9,837	$ 9,071	$ 11,562	$ 11,173
Net investment income	4,859	4,204	5,839	4,995
Net increase in net assets resulting from operations	10,770	2,697	7,589	29,158
Net increase in net assets resulting from operations per weighted average common share – basic & diluted	$ 0.41	$ 0.10	$ 0.29	$ 1.08

	Quarter Ended			
Year ended March 31, 2014	**June 30, 2013**	**September 30, 2013**	**December 31, 2013**	**March 31, 2014**
Total investment income	$ 7,398	$ 11,359	$ 8,696	$ 8,811
Net investment income	4,033	6,228	4,402	4,644
Net (decrease) increase in net assets resulting from operations	(6,519)	14,939	(10,686)	937
Net (decrease) increase in net assets resulting from operations per weighted average common share – basic & diluted	$ (0.25)	$ 0.57	$ (0.40)	$ 0.03

NOTE 14. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES

In accordance with the SEC's Regulation S-X and GAAP, we are not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which we have a controlling interest. We had three unconsolidated subsidiaries, D.P.M.S., Inc. (d/b/a Danco Acquisition Corporation), Galaxy, and SOG, which met at least one of the significance conditions under Rule 1-02(w) of the SEC's Regulation S-X during at least one of the years ended March 31, 2015, 2014 and 2013. Accordingly, audited and unaudited financial statements, as applicable, for these subsidiaries have been included as exhibits to this Form 10-K. In addition, we had one unconsolidated subsidiary, Venyu, which met at least one of the significance conditions under Rule 1-02(w) of the SEC's Regulation S-X for the years ended March 31, 2014 and 2013. Accordingly, summarized, comparative financial information is presented below for Venyu, which is a leader in commercial-grade, customizable solutions for data protection, data hosting, and disaster recovery.

Income Statement	**For the Five Months Ended August 30, 2013(A)**	**For the Year Ended March 31, 2013**
Net sales	**$ 10,120**	$ 23,905
Gross profit	**5,254**	12,861
Net loss	**(294)**	(329)

(A) Venyu was exited in August 2013 and is no longer in our portfolio as of March 31, 2015 or 2014. Rule 4-08(g) information is being provided herein in lieu of Rule 3-09 separate financial statements pursuant to relief provided by the Staff of the SEC's Office of Chief Accountant in the Division of Investment Management.

NOTE 15. SUBSEQUENT EVENTS

Common stock offering

In connection with the March 13, 2015 common stock offering, the underwriters exercised their option in April 2015 to purchase an additional 495,000 shares at the public offering price of $7.40 per share to cover over-allotments, which resulted in gross proceeds of $3.7 million and net proceeds, after deducting underwriting discounts, of approximately $3.5 million.

Term preferred stock offering

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 expenses borne by us, were approximately $38.6 million.

Distributions and dividends

In April 2015, our Board of Directors declared the following monthly distributions to common stockholders and dividends to holders of our Series A and B Term Preferred Stock:

Record Date	Payment Date	Distribution per Common Share	Dividend per Series A Term Preferred Share	Dividend per Series B Term Preferred Share
April 24, 2015	April 30, 2014	$ 0.0625	$ 0.1484375	$ 0.140625
May 19, 2015	May 29, 2015	0.0625	0.1484375	0.140625
June 19, 2015	June 30, 2015	0.0625	0.1484375	0.140625
Total for the Quarter:		$ 0.1875	$ 0.4453125	$ 0.421875

In May 2015, our Board of Directors declared the following combined cash dividend (for a prorated month of May 2015, based upon the issuance date, and a full month of June 2015) to holders of our Series C Term Preferred Stock:

Record Date	Payment Date	Dividend per Series C Term Preferred Share
June 19, 2015	June 30, 2015	$ 0.221181
Total for the Quarter:		$ 0.221181

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of March 31, 2015 (the end of the period covered by this report), we, including our chief executive officer and chief financial officer and treasurer, evaluated the effectiveness and design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the chief executive officer and chief financial officer and treasurer, concluded that our disclosure controls and procedures were effective in timely alerting management, including the chief executive officer and chief financial officer and treasurer, 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.

Management's Annual Report on Internal Control over Financial Reporting

Refer to Management's Annual Report on Internal Control over Financial Reporting located in Item 8 of this Form 10-K.

Attestation Report of the Independent Registered Public Accounting Firm

Refer to the Report of Independent Registered Public Accounting Firm located in Item 8 of this Form 10-K.

Change in Internal Control over Financial Reporting

There were no changes in internal controls for the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

We will file a definitive Proxy Statement for our 2015 Annual Meeting of Stockholders (the “2015 Proxy Statement”) with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2015 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is hereby incorporated by reference from our 2015 Proxy Statement under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from our 2015 Proxy Statement under the captions “Compensation Discussion and Analysis—Executive Compensation” and “Director Compensation.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is hereby incorporated by reference from our 2015 Proxy Statement under the caption “Security Ownership of Certain Beneficial Owners and Management.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is hereby incorporated by reference from our 2015 Proxy Statement under the captions “Certain Transactions” and “Information Regarding the Board of Directors and Corporate Governance.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference from our 2015 Proxy Statement under the caption “Independent Registered Public Accounting Firm Fees.”

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. DOCUMENTS FILED AS PART OF THIS REPORT

1. The following financial statements are filed herewith:

2. The following financial statement schedule is filed herewith:

No other financial statement schedules are filed herewith because (1) such schedules are not required or (2) the information has been presented in the aforementioned financial statements.

3. Exhibits

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC:

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.
3.2	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 7.125% Series A Cumulative Term Preferred Stock Certificate, incorporated by reference to Exhibit 2.D.4 to Post-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-160720), filed February 29, 2012.
4.3	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.
4.4	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.
10.1	Investment Advisory and Management Agreement between the Registrant and Gladstone Management Corporation, dated June 22, 2005, incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K (File No. 814-00704) filed June 14, 2006.
10.2	Administration Agreement between the Registrant and Gladstone Administration, LLC, dated June 22, 2005, incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K (File No. 814-00704) filed June 14, 2006.
10.3	Stock Transfer Agency Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit K.1 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005.
10.4	Custody Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit 99.J to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005.
10.5	Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated October 10, 2006, incorporated by reference to Exhibit 2.j.2 to Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-181879), filed June 7, 2013.

10.6	Amendment No. 1 to Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated April 14, 2009, incorporated by reference to Exhibit 2.j.3 to Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-181879), filed June 7, 2013.
10.7	Fifth Amended and Restated Credit Agreement, dated as of April 30, 2013, by and among Gladstone Business Investment, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Financial Institutions as party thereto, as Lenders and Managing Agents, and Key Equipment Finance, Inc., as Administrative Agent and Lead Arranger, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed May 2, 2013.
10.8	Joinder Agreement, dated as of June 12, 2013, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance Inc. and Everbank Commercial Finance, Inc., incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 814-00704), filed June 17, 2013.
10.9	Joinder Agreement, dated as of June 12, 2013, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance Inc. and Alostar Bank of Commerce, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K (File No. 814-00704), filed June 17, 2013.
10.10	Amendment No. 1 to Fifth Amended and Restated Credit Agreement, dated as of June 26, 2014, by and among Gladstone Business Investment, LLC, as Borrower, Gladstone Management Corporation, as Servicer, the Financial Institutions as party thereto, as Lenders and Managing Agents, and Key Equipment Finance, a division of KeyBank National Association, as Administrative Agent, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed June 30, 2014.
10.11	Joinder Agreement, dated as of September 19, 2014, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance, a division of KeyBank National Association, and East West Bank, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 814-00704), filed September 22, 2014.
10.12	Joinder Agreement, dated as of September 19, 2014, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance, a division of KeyBank National Association, and Manufacturers and Traders Trust, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K (File No. 814-00704), filed September 22, 2014.
10.13	Joinder Agreement, dated as of September 19, 2014, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance, a division of KeyBank National Association, and Customers Bank, incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K (File No. 814-00704), filed September 22, 2014.
10.14	Joinder Agreement, dated as of September 19, 2014, by and among the Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance, a division of KeyBank National Association, and Talmer Bank and Trust, incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K (File No. 814-00704), filed September 22, 2014.
11	Computation of Per Share Earnings (included in the notes to the audited financial statements contained in this report).
12*	Statements re: Computation of Ratios
14	Code of Ethics and Business Conduct, dated January 28, 2013, incorporated by reference to Exhibit 2.r to the Post-effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-181979), filed June 7, 2013.
21*	Subsidiaries of the Registrant.
31.1*	Certification of Chief Executive Officer filed pursuant to section 302 of The Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer filed pursuant to section 302 of The Sarbanes-Oxley Act of 2002.
32.1†	Certification of Chief Executive Officer furnished pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
32.2†	Certification of Chief Financial Officer furnished pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
99.1*	Financial Statements of Danco Acquisition Corporation as of and for the years ended December 31, 2014 and 2013 (unaudited).
99.2*	Financial Statements of Danco Acquisition Corporation as of and for the years ended December 31, 2012 and 2011.
99.3*	Financial Statements of Galaxy Tool Holding Corporation and Subsidiary as of and for the years ended December 31, 2014 and 2013 (unaudited).
99.4*	Financial Statements of Galaxy Tool Holding Corporation and Subsidiary as of and for the years ended December 31, 2012 and 2011.
99.5*	Financial Statements of SOG Specialty Knives and Tools, LLC as of and for the years ended December 31, 2014 and 2013 (unaudited).
99.6*	Financial Statements of SOG Specialty Knives and Tools, LLC as of and for the years ended December 31, 2013 and 2012.

* Filed herewith
† Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: May 20, 2015	By: /s/ MELISSA MORRISON Melissa Morrison Chief Financial Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: May 20, 2015	By: /s/ DAVID GLADSTONE David Gladstone Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)
Date: May 20, 2015	By: /s/ TERRY LEE BRUBAKER Terry Lee Brubaker Vice Chairman and Chief Operating Officer
Date: May 20, 2015	By: /s/ DAVID A. R. DULLUM David A. R. Dullum President and Director
Date: May 20, 2015	By: /s/ MELISSA MORRISON Melissa Morrison Chief Financial Officer and Treasurer (principal financial and accounting officer)
Date: May 20, 2015	By: /s/ ANTHONY W. PARKER Anthony W. Parker Director
Date: May 20, 2015	By: /s/ MICHELA A. ENGLISH Michela A. English Director
Date: May 20, 2015	By: /s/ PAUL ADELGREN Paul Adelgren Director
Date: May 20, 2015	By: /s/ JOHN H. OUTLAND John H. Outland Director
Date: May 20, 2015	By: /s/ CAREN D. MERRICK Caren D. Merrick Director
Date: May 20, 2015	By: /s/ WALTER H. WILKINSON, JR. Walter H. Wilkinson, Jr. Director

SCHEDULE 12-14

GLADSTONE INVESTMENT CORPORATION
INVESTMENTS IN AND ADVANCES TO AFFILIATES
(AMOUNTS IN THOUSANDS)

Name of Issuer(A)	Title of Issue or Nature of Indebtedness(B)	Amount of Investment Income(C)	Value as of March 31, 2014	Gross Additions(D)	Gross Reductions(E)	Value as of March 31, 2015
CONTROL INVESTMENTS						
Galaxy Tool Holding Corporation	Secured Line of Credit	$ 103	$ —	$ 3,250	$ —	$ 3,250
	Senior Subordinated Secured Term Debt	2,124	15,520	—	—	15,520
	Preferred Stock	—	2,992	—	(2,992)	—
	Common Stock	—	—	—	—	—
		2,227	18,512	3,250	(2,992)	18,770
Roanoke Industries Corp.	Senior Secured Term Debt	69	—	1,650	—	1,650
	Common Stock	—	—	1,860	(1,650)	210
		69	—	3,510	(1,650)	1,860
TOTAL CONTROL INVESTMENTS		**$ 2,296**	**$ 18,512**	**$ 6,760**	**$ (4,642)**	**$ 20,630**
AFFILIATE INVESTMENTS						
Acme Cryogenics, Inc.	Senior Subordinated Secured Term Debt	$ 1,269	$ 14,500	$ —	$ —	$ 14,500
	Preferred Stock	—	11,276	972	(3,729)	8,519
	Common Stock	—	—	—	—	—
	Common Stock Warrants	—	—	—	—	—
		1,269	25,776	972	(3,729)	23,019
Alloy Die Casting Corp.	Senior Secured Term Debt	1,255	12,261	—	(107)	12,154
	Preferred Stock	—	1,948	2,174	—	4,122
	Common Stock	—	—	—	—	—
		1,255	14,209	2,174	(107)	16,276
Behrens Manufacturing, LLC	Senior Secured Term Debt	1,315	9,975	—	—	9,975
	Preferred Stock	—	2,754	693	—	3,447
		1,315	12,729	693	—	13,422
B-Dry, LLC	Secured Line of Credit	39	566	1,325	(767)	1,124
	Senior Secured Term Debt	440	4,865	—	(1,375)	3,490
	Senior Secured Term Debt	122	2,144	—	(1,689)	455
	Common Stock	—	—	—	—	—
		601	7,575	1,325	(3,831)	5,069
B+T Group Acquisition, Inc.	Secured Line of Credit	22	—	700	—	700
	Senior Secured Term Debt	521	—	14,000	—	14,000
	Preferred Stock	—	—	4,541	—	4,541
		543	—	19,241	—	19,241
Cambridge Sound Management, Inc.	Secured Line of Credit	14	—	675	(675)	—
	Senior Secured Term Debt	991	—	15,000	—	15,000
	Preferred Equity	—	—	4,500	2,698	7,198
		1,005	—	20,175	2,023	22,198
Channel Technologies Group, LLC	Preferred Stock	—	3,122	—	(807)	2,315
	Common Stock	—	—	—	—	—
		—	3,122	—	(807)	2,315
Counsel Press, Inc.	Secured Line of Credit	1	—	1,500	—	1,500
	Senior Secured Term Debt	6	—	18,000	—	18,000
	Senior Secured Term Debt	2	—	5,500	—	5,500
	Preferred Equity	—	—	6,995	—	6,995
		9	—	31,995	—	31,995

GLADSTONE INVESTMENT CORPORATION
INVESTMENTS IN AND ADVANCES TO AFFILIATES (Continued)
(AMOUNTS IN THOUSANDS)

Name of Issuer(A)	Title of Issue or Nature of Indebtedness(B)	Amount of Investment Income(C)	Value as of March 31, 2014	Gross Additions(D)	Gross Reductions(E)	Value as of March 31, 2015
D.P.M.S., Inc.	Secured Line of Credit	$ 161	$ 690	$ 550	$ (478)	$ 762
	Senior Secured Term Debt	104	515	—	(25)	490
	Senior Secured Term Debt	357	1,759	—	(85)	1,674
	Senior Secured Term Debt	58	236	—	(17)	219
	Preferred Stock	—	—	—	—	—
	Common Stock Warrants	—	—	—	—	—
		680	3,200	550	(605)	3,145
Edge Adhesives Holdings, Inc.	Secured Line of Credit	130	795	1,590	(897)	1,488
	Senior Secured Term Debt	1,179	9,300	—	—	9,300
	Senior Secured Term Debt	39	—	877	(877)	—
	Senior Subordinated Term Debt	335	2,400	3	—	2,403
	Preferred Stock	—	3,474	—	(275)	3,199
		1,683	15,969	2,470	(2,049)	16,390
Head Country Food Products, Inc.	Secured Line of Credit	2	—	—	—	—
	Senior Secured Term Debt	1,147	9,050	—	—	9,050
	Preferred Stock	—	4,000	—	(69)	3,931
		1,149	13,050	—	(69)	12,981
Logo Sportswear, Inc.	Secured Line of Credit	1	—	250	(250)	—
	Senior Secured Term Debt	83	—	9,200	—	9,200
	Preferred Stock	—	—	1,550	—	1,550
		84	—	11,000	(250)	10,750
Meridian Rack & Pinion, Inc.	Senior Secured Term Debt	1,322	9,672	—	(60)	9,612
	Preferred Stock	—	3,468	—	(351)	3,117
		1,322	13,140	—	(411)	12,729
NDLI Acquisition, LLC	Secured Line of Credit	163	—	2,875	(567)	2,308
	Senior Secured Term Debt	840	—	7,227	(1,424)	5,803
	Senior Secured Term Debt	405	—	3,650	(719)	2,931
	Senior Secured Term Debt	405	—	3,650	(720)	2,930
	Preferred Stock	—	2,592	1,000	(3,592)	—
	Common Stock	—	—	—	—	—
		1,813	2,592	18,402	(7,022)	13,972
Old World Christmas, Inc.	Secured Line of Credit	79	—	2,430	(2,430)	—
	Senior Secured Term Debt	981	—	15,770	—	15,770
	Preferred Stock	—	—	6,657	—	6,657
		1,060	—	24,857	(2,430)	22,427
Precision Southeast, Inc.	Senior Secured Term Debt	399	5,617	4,000	—	9,617
	Preferred Stock	—	—	1,830	—	1,830
	Common Stock	—	—	—	—	—
		399	5,617	5,830	—	11,447
SOG Specialty Knives & Tools, LLC	Senior Secured Term Debt	833	6,200	—	—	6,200
	Senior Secured Term Debt	1,824	12,199	1	—	12,200
	Preferred Stock	534	8,240	5,211	—	13,451
		3,191	26,639	5,212	—	31,851

GLADSTONE INVESTMENT CORPORATION
INVESTMENTS IN AND ADVANCES TO AFFILIATES (Continued)
(AMOUNTS IN THOUSANDS)

Name of Issuer(A)	Title of Issue or Nature of Indebtedness(B)	Amount of Investment Income(C)	Value as of March 31, 2014	Gross Additions(D)	Gross Reductions(E)	Value as of March 31, 2015
Tread Corporation	Secured Line of Credit (F)	$ —	$ —	$ 3,282	$ (2,907)	$ 375
	Senior Subordinated Secured Term Debt (F)	—	—	782	—	782
	Senior Subordinated Secured Term Debt (F)	—	—	430	—	430
	Senior Subordinated Secured Term Debt (F)	—	—	156	—	156
	Senior Subordinated Secured Term Debt (F)	—	—	80	—	80
	Preferred Stock	—	—	—	—	—
	Common Stock	—	—	—	—	—
	Common Stock Warrants	—	—	—	—	—
		—	—	4,730	(2,907)	1,823
TOTAL AFFILIATE INVESTMENTS		**$ 17,378**	**$ 143,618**	**$ 149,626**	**$ (22,194)**	**$ 271,050**

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

(B) Common stock, warrants, options and, in some cases, preferred stock are generally non-income-producing and restricted. The principal amount of debt and the number of shares of common stock and preferred stock are shown in the accompanying *Consolidated Schedule of Investments* as of March 31, 2015.

(C) Represents the total amount of interest or other investment income credited to income for the portion of the year an investment was a control investment or affiliate investment, as appropriate.

(D) Gross additions include increases in investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and fees and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increases in unrealized appreciation or decreases in unrealized depreciation.

(E) Gross reductions include decreases in investments resulting from principal collections related to investment repayments or sales, the amortization of premiums and acquisition costs and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or decreases in unrealized appreciation.

(F) Debt security is on non-accrual status and, therefore, is considered non-income producing

** Information related to the amount of equity in the net profit and loss for the period for the investments listed has not been included in this schedule. This information is not considered to be meaningful due to the complex capital structures of the portfolio companies, with different classes of equity securities outstanding with different preferences in liquidation. These investments are not consolidated, nor are they accounted for under the equity method of accounting.

STATEMENTS RE: COMPUTATION OF RATIOS
(Dollars in Thousands, Except Ratios)

	For the Year Ended March 31,		
	2015	**2014**	**2013**
Net investment income	**$19,897**	$19,307	$16,488
Add: fixed charges and preferred dividends	**8,789**	5,949	4,768
Less: preferred dividends	**(3,921)**	(2,850)	(2,850)
Net earnings	**$24,765**	$22,406	$18,406
Fixed charges and preferred dividends:			
Interest expense	**3,539**	2,075	1,127
Amortization of deferred financing fees	**1,329**	1,024	791
Preferred dividends	**3,921**	2,850	2,850
Total fixed charges and preferred dividends	**$ 8,789**	$ 5,949	$ 4,768
Ratio of net earnings to combined fixed charges and preferred dividends	**2.8**	3.8	3.9

The calculation of the ratio of net earnings to combined fixed charges and preferred dividends is above. “Net earnings” consist of net investment income before fixed charges. “Fixed charges” consist of interest expense and amortization of deferred financing fees.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Gladstone Business Investment, LLC (organized in Delaware)

Exhibit 31.1

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David Gladstone, certify that:

1. I have reviewed this annual report on Form 10-K of Gladstone Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 20, 2015

/s/ David Gladstone
David Gladstone
Chief Executive Officer and
Chairman of the Board of Directors

Exhibit 31.2

CERTIFICATION
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Melissa Morrison, certify that:

1. I have reviewed this annual report on Form 10-K of Gladstone Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 20, 2015

/s/ Melissa Morrison
Melissa Morrison
Chief Financial Officer and Treasurer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the Chief Executive Officer and Chairman of the Board of Gladstone Investment Corporation (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the fiscal year ended March 31, 2015 (“Form 10-K”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 20, 2015

/s/ David Gladstone
David Gladstone
Chief Executive Officer and
Chairman of the Board of Directors

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Financial Officer of Gladstone Investment Corporation (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the fiscal year ended March 31, 2015 ("Form 10-K"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 20, 2015

/s/ Melissa Morrison
Melissa Morrison
Chief Financial Officer and Treasurer

Exhibit 99.1

DANCO ACQUISITION CORPORATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

(unaudited)

DANCO ACQUISITION CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
(unaudited)

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 252,398	$ 169,505
Accounts receivable less allowance for doubtful accounts of $14,622 and $14,507, respectively	1,928,689	1,921,695
Inventory, net	1,698,564	2,010,681
Prepaid expenses	153,655	85,164
Total current assets	4,033,306	4,187,045
Property and equipment, net	2,054,926	2,127,753
Intangible assets, net	—	253,535
Other assets	35,148	35,148
Total assets	**$ 6,123,380**	**$ 6,603,481**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 737,526	$ 897,039
Accrued liabilities	1,514,373	1,458,726
Current portion—capital leases	162,916	162,916
Total current liabilities	2,414,815	2,518,681
Line of credit	4,000,000	3,150,000
Capital leases, net of current portion	387,475	179,195
Long-term debt	14,520,514	14,520,514
Total liabilities	21,322,804	20,368,390
Commitments and Contingencies (Note 14)		
Stockholders' deficit		
Preferred stock, $0.0001 par value; 2,000 shares authorized, 42 shares issued and outstanding as of December 31, 2014 and 2013	3,791,735	3,791,735
Common stock, $0.0001 par value; 10,000 shares authorized, 1,287 and 1,241 shares issued and outstanding as of December 31, 2014 and 2013, respectively	9,595	9,549
Accumulated deficit	(19,000,754)	(17,566,193)
Total stockholders' deficit	(15,199,424)	(13,764,909)
Total liabilities and stockholders' deficit	**$ 6,123,380**	**$ 6,603,481**

The accompanying notes are an integral part of these financial statements

DANCO ACQUISITION CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
December 31, 2014 and 2013
(unaudited)

	2014	2013
Sales	$11,866,581	$13,152,961
Cost of sales	9,545,084	11,393,283
Gross profit	2,321,497	1,759,678
General and administrative expenses	2,857,016	3,062,554
Operating loss	(535,519)	(1,302,876)
Other income (expense)		
Interest expense	(924,573)	(846,692)
Other income, net	27,131	9,930
	(897,442)	(836,762)
Net loss before income taxes	(1,432,961)	(2,139,638)
Provision for income taxes	(1,600)	(1,600)
Net loss	$ (1,434,561)	$ (2,141,238)

The accompanying notes are an integral part of these financial statements

DANCO ACQUISITION CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
December 31, 2014 and 2013
(unaudited)

	Preferred Stock		Common Stock		Acummulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Deficit	Deficit
Balance as of December 31, 2012	42	$3,791,735	580	$ 8,300	$(15,424,955)	$(11,624,920)
Repurchase of Class A common stock at $1.00 per share	—	—	(580)	(580)	—	(580)
Exercise of warrants and conversion into Class A common stock	—	—	1,241	1,829	—	1,829
Net loss	—	—	—	—	(2,141,238)	(2,141,238)
Balance as of December 31, 2013	42	3,791,735	1,241	9,549	(17,566,193)	(13,764,909)
Purchase of Class A common stock at $1.00 per share	—	—	46	46	—	46
Net loss	—	—	—	—	(1,434,561)	(1,434,561)
Balance as of December 31, 2014	42	$3,791,735	1,287	$ 9,595	$(19,000,754)	$(15,199,424)

The accompanying notes are an integral part of these financial statements

DANCO ACQUISITION CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2014 and 2013
(unaudited)

	2014	2013
Cash flows from operating activities		
Net loss	$ (1,434,561)	$ (2,141,238)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation expense	559,388	537,969
Amortization expense	253,535	320,255
Amortization of debt issuance costs	—	148,722
Provision for doubtful accounts	115	539
Provision for obsolete inventory	(349,965)	(223,863)
Non cash interest expense	16,821	—
Changes in operating assets and liabilities:		
Accounts receivable	(7,109)	(173,920)
Inventory	662,082	302,353
Prepaid expenses and other assets	(68,491)	9,515
Accounts payable and accrued liabilities	(103,866)	548,071
Net cash used in operating activities	(472,051)	(671,597)
Cash flows from investing activities		
Payments for the purchase of fixed assets	(98,283)	(86,600)
Net cash used in investing activities	(98,283)	(86,600)
Cash flows from financing activities		
Principal payments on note payable	—	(81,659)
Net proceeds from line of credit	850,000	981,659
Payments on capital leases	(196,819)	(166,752)
Proceeds from exercise of warrants	—	1,829
Proceeds from purchase of common stock	46	—
Repurchase of common stock	—	(580)
Net cash provided by financing activities	653,227	734,497
Net increase (decrease) in cash and cash equivalents	82,893	(23,700)
Cash and cash equivalents, beginning of year	169,505	193,205
Cash and cash equivalents, end of year	$ 252,398	$ 169,505
Supplemental disclosures of cash flow information		
Interest expense paid	$ 673,881	$ 629,664
Income taxes paid	1,600	1,600
Income taxes refunds received	—	—
Non-cash investing and financing activities		
Property and equipment purchased under capital lease	$ 388,279	$ 103,694
Conversion of 1,237.43 shares Class A voting common stock into Class B non-voting common stock	$ 1,238	$ —

The accompanying notes are an integral part of these financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

DPMS, Inc. dba Danco Machine DPMS (the "Company" or "Danco") was founded in 1979 to meet the challenge of providing competitively priced, quality prototype machining services to the emerging high-tech industries of the Silicon Valley.

On October 17, 2007, the Company was acquired by Danco Acquisition Corporation, an entity created by a group of private equity firms to facilitate their acquisition of the Company. The transaction was effected so that Danco would have the necessary financial and managerial resources available to continue to strategically grow. These financial statements contain the consolidated results of Danco Acquisition Corporation and its wholly owned subsidiary DPMS, Inc.

Liquidity and Management's Plans

The Company has experienced recurring operating losses and recurring operating cash flow deficits. Management has plans to return the Company to profitability and positive cash flows. Management is closely monitoring its demand, and if demand does not increase as expected, management may implement cost-cutting measures. If strategies to improve margins and reduce operating costs are not successful, and the Company is not able to meet its debt obligations, then the Company will need to further reduce expenses or raise additional capital through other sources.

The Company also has $14,520,514 of notes payable and a line of credit balance of $4,000,000 which mature in 2016. These balances are payable to a lender who is an affiliated entity of the majority stockholder of the Company. This stockholder has demonstrated continued support of its investment in the Company. If the Company is unable to improve the cash flow from operations, the Company will need to seek additional capital from the stockholders or other sources. However, there is no assurance that the stockholders will continue to provide capital to the Company or that the Company will be able to obtain additional capital from other sources.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturity of three months or less to be cash equivalents.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Allowance for Doubtful Accounts

The Company recognizes revenue when (i) delivery of product has occurred, (ii) there is persuasive evidence of a sale arrangement, (iii) selling prices are fixed or determinable, and (iv) collectability from the customers is reasonably assured. Revenue is recorded when the risk and rewards of ownership are transferred to the Company's customers, which generally occurs upon shipment of the product. Accounts receivable is stated at an amount that management believes to be collectible. Historically, bad debts have been within management's expectations.

Inventory

Inventory is stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market. The Company evaluates the valuation of all inventory, including raw materials, work-in-process, finished goods and spare parts on a periodic basis. Obsolete inventory or inventory in excess of management's estimated usage is written down to its estimated market value less costs to sell, if less than its cost. Inherent in the estimates of market value are management's estimates related to economic trends, future demand for products and technological obsolescence of the Company's products.

Property and Equipment

Property and equipment are recorded at cost and include improvements that significantly add to productive capacity or extend useful life. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to fifteen years. Repair and maintenance costs that do not increase the useful lives and/or enhance the value of the assets are charged to operations as incurred. Leasehold improvements are stated at cost and amortized over the lesser of the terms of the respective leases or the assets' useful lives.

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets consist primarily of property and equipment. Recoverability of assets is measured by a comparison of the carrying amount of an asset group to future net cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment charge is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell. The Company did not recognize any impairment charges associated with long-lived assets during the years ended December 31, 2014 and 2013.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Intangible assets are accounted for in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 350, "Intangibles—Goodwill and Other Intangible Assets." Intangible assets are amortized on a straight-line basis over the period of expected benefit with a weighted-average useful life of approximately 5.4 years with no calculated residual value. The estimated useful lives of identifiable intangible assets are as follows:

Covenants not to compete	5 years
Customer lists	7 years

Intangible assets were fully amortized during the year ended December 31, 2014.

Debt Issuance Costs

The Company amortizes debt issuance costs using the effective interest method over the term of the related notes payable.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considers all available evidence, including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event that the Company changes its determination as to the amount of deferred tax assets that is more likely than not to be realized, the Company will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Company follows the authoritative guidance regarding uncertain tax positions. This guidance requires that realization of an uncertain income tax position must be more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. The guidance further prescribes the benefit to be realized assumes a review by tax authorities having all relevant information and applying current conventions. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits as income tax expense.

Shipping and Handling

Shipping and handling charges billed to customers are included in sales. The costs of shipping to customers are included in cost of sales in the Company’s consolidated statement of operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company’s most significant estimates relate to the allowance for doubtful accounts and inventory reserves.

Concentration of Credit Risk

The Company has a concentration of credit risk with respect to its trade receivables. The Company provides unsecured and interest-free credit, in the normal course of business, to its customers, and trade receivables are considered past due based on payment terms with customers. Management performs ongoing credit evaluations of its customers and monitors the trade receivable balances on a regular basis. An allowance for doubtful accounts is recorded based on management’s evaluation of outstanding trade receivables. Trade receivables are written off when all methods of collection have been exhausted and such write-offs have been within the range of management’s expectations. Management believes its credit acceptance, billing and collection policies are adequate to minimize potential credit risk.

The Company has a concentration of credit risk with respect to the volume of business transacted with certain customers. Four customers accounted for approximately 76% and two customers accounted for approximately 54% of the Company’s sales for the years ended December 31, 2014 and 2013, respectively. Three customers represented approximately 76% and 75% of the Company’s trade accounts receivable as of December 31, 2014 and 2013, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

FASB ASC Topic No. 820 "Fair Value Measurements and Disclosures" defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. The statement, among other things, requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This includes applying the fair value concept to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations, (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing, (iii) other nonfinancial assets and liabilities measured at fair value in conjunction with impairment assessments and (iv) asset retirement obligations initially measured at fair value.

The statement established a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defined three levels of inputs to the fair value measurement process and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by the hierarchy are as follows:

- Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date,
- Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full-term of the asset or liability and
- Level 3 Inputs – unobservable inputs for the asset or liability. These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

Financial instruments for which disclosure only of fair value is required consist of the following:

- Cash and cash equivalents – carrying value approximates fair value due to the short time to maturity.
- Notes payable and line of credit – due to the related party nature of these obligations, the Company is unable to make a reasonable estimate of fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)," and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, and is to be applied retrospectively, with early application permitted with the annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Management is currently evaluating the new standard.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements—Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which includes guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and to provide related footnote disclosures. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. Management is currently evaluating the new standard.

NOTE 2 – INVENTORY

Inventory consists of the following as of December 31:

	2014	2013
Raw materials and work in progress	$ 982,947	$ 1,256,000
Finished goods	1,617,763	2,006,792
	2,600,710	3,262,792
Less inventory reserve	(902,146)	(1,252,111)
Total inventory	**$1,698,564**	**$ 2,010,681**

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	2014	2013
Machinery and equipment	$ 5,247,632	$ 4,808,770
Software	219,474	190,531
Office equipment	92,088	77,346
Leasehold improvements	18,857	18,857
Automobile	17,714	13,701
	5,595,765	5,109,205
Less accumulated depreciation	(3,540,839)	(2,981,452)
Total	**$ 2,054,926**	**$ 2,127,753**

The Company recorded $559,388 and $537,969 in total depreciation expense for the years ended December 31, 2014 and 2013, respectively. Of these amounts, depreciation expense related to assets acquired under capital leases was $214,719 and $177,585 for the years ended December 31, 2014 and 2013, respectively. Total cost of assets under capital leases at December 31, 2014 and 2013 was $1,254,066 and $788,743, respectively. Accumulated depreciation related to assets acquired under capital leases was $666,518 and $451,799 as of December 31, 2014 and 2013, respectively.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets consist of the following as of December 31:

	2014	2013
Customer relationships	$ 2,241,784	$ 2,241,784
Covenant not to compete	500,000	500,000
Gross intangible assets	2,741,784	2,741,784
Less accumulated amortization	(2,741,784)	(2,488,249)
Total intangible assets	**$ —**	**$ 253,535**

The aggregate amortization expense for the years ended December 31, 2014 and 2013 was $253,535 and $320,255, respectively.

NOTE 5 – ACCRUED LIABILITIES

Accrued liabilities consisted of the following at December 31:

	2014	2013
Accrued interest	$1,017,805	$ 823,301
Employee-related liabilities	322,040	441,937
Other accrued liabilities	174,528	193,488
Total	**$1,514,373**	**$1,458,726**

NOTE 6 – DEBT ISSUANCE COSTS

Debt issuance costs are capitalized on the balance sheet resulting from financing arrangements as part of the acquisition of the Company by Danco Acquisition Corporation on October 17, 2007. The aggregate amortization expense for the year ended December 31, 2013 was $148,722 and such costs were fully amortized as of December 31, 2013.

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following as of December 31, 2014 and 2013:

	2014	2013
Note A – Note payable to affiliated entity of a majority equity holder in the Company, secured by substantially all assets of the Company. In March 2013, the note was modified to allow the Company to request interest on the note to be calculated at 4.0% instead of the stated interest rate of the greater of 10.0% or the LIBOR rate plus 4.0%, payable monthly (actual rate was 4.0% as of December 31, 2014 and 2013, respectively). This note is subject to certain financial performance related covenants, which were waived subsequent to the year ended December 31, 2014. Interest is due and payable monthly, in arrears, commencing on September 1, 2012. In February 2015, the note's maturity date was extended to August 2016.	$2,575,000	$2,575,000

(continued on next page)

NOTE 7 – NOTES PAYABLE (Continued)

(continued from previous page)

	2014	2013
Note B – Note payable to affiliated entity of a majority equity holder in the Company, secured by substantially all assets of the Company. In March 2013, the note was modified to allow the Company to request interest on the note to be calculated at 4.0% instead of the stated interest rate of the greater of 6.25% or the LIBOR rate plus 3.125%, payable monthly (actual rate was 4.0% as of December 31, 2014 and 2013, respectively). This note is subject to certain financial performance related covenants, which were waived subsequent to the year ended December 31, 2014. Interest is due and payable monthly, in arrears, commencing on September 1, 2012. In February 2015, the note's maturity date was extended to August 2016.	8,795,514	8,795,514

(continued on next page)

Note C – Note payable to affiliated entity of a majority equity holder in the Company, secured by substantially all assets of the Company. In March 2013, the note was modified to allow the Company to request interest on the note to be calculated at 5.0% instead of the stated interest rate of the greater of 5.0% or the LIBOR rate plus 4.75%, payable monthly (actual rate was 5.0% as of December 31, 2014 and 2013, respectively). This note is subject to certain financial performance related covenants, which were waived subsequent to the year ended December 31, 2014. Interest is due and payable monthly, in arrears, commencing on September 1, 2012. In February 2015, the note's maturity date was extended to August 2016.	1,150,000	1,150,000

(continued on next page)

NOTE 7 – NOTES PAYABLE (Continued)

(continued from previous page)

	2014	2013
Note payable to former stockholder, subordinated to all other debt held by the Company. Bears interest at 7.0%, compounded semiannually and payable quarterly. The note was previously amended to suspend interest payments until the Company meets certain financial measurements. At December 31, 2014 and 2013, accrued interest related to this note was $963,566 and $769,184, respectively (and is included in accrued liabilities in the balance sheet). Principal payments are equal to the amount that annual earnings before interest, taxes, depreciation and amortization ("EBITA") exceeds $4,500,000, and requires the approval of the senior debt holders for payment. The note matures the later of February 2016 or six months after maturity of the senior notes.	2,000,000	2,000,000
	$14,520,514	$15,520,514

Interest expense on related party loans for the years ended December 31 2014 and 2013 was $670,648 and $630,099, respectively. $54,239 and $54,117 remained payable at December 31, 2014 and 2013, respectively.

Minimum annual payments are as follows:

Year Ending December 31,	
2015	$ —
2016	12,520,514
2017	2,000,000
Total minimum annual payments	**$14,520,514**

NOTE 7 – NOTES PAYABLE (Continued)

As part of the March 2013 amendment to the Notes A, B and C discussed above and the line of credit discussed in Note 8, Exit Fees were added, which are summarized as follows:

- For Note A and the line of credit, the Exit Fee is equal to the sum of the Differential Amounts on each interest payment date from the date of amendment through the date of a Change of Control, with the Differential Amount being the difference between the maximum interest rate and the minimum interest rate. The Exit Fee is payable upon occurrence of a Change of Control.
- For Note B, the Exit Fee is equal to the sum of a) for the period from October 16, 2007 through and including June 30, 2012, 2.50% per annum on the greater of (i) the outstanding principal amount of the Note (Original Note and the Prior Note) and (ii) 75% of the original principal amount of the Original Note, plus b) for the period from July 1, 2012 through and including the Maturity Date, 8.75% per annum on the greater of (i) 75% of the original principal amount of the Note and (ii) 75% of the original principal amount of the Original Note, plus c) the sum of the Differential Amounts on each Interest Payment Date from the date of amendment through the date of a Change of Control, with the Differential Amount being the difference between the maximum interest rate and the minimum interest rate. The Exit Fee is payable upon occurrence of a Change of Control.
- For Note C, the Exit Fee is equal to the amount accrued at a rate of 20% per annum on the outstanding principal of the Original Notes, from the date of issuance thereof upon earlier of a) a Change of Control or b) the repayment of Obligations (other than Exit Fee) and no obligation to advance. Obligations includes the Term A, B and Revolving Note exit fees as defined in the Note Purchase Agreement. The Exit Fee is payable upon the earlier of an occurrence of a Change of Control or repayment of Obligations.

As the exit fees for Note A, B and line of credit are contingent upon a Change of Control and for Note C contingent upon either a Change of Control or repayment of all Obligations (including the exit fees of the other Notes), they are considered contingent interest payments. As they are contingent, the Company has assessed the probability of payment of the exit fees and has determined it is not likely. A change of control is uncertain and, as a result, no amounts have been accrued for the exit fees. As of December 31, 2014, the contingent interest payment liabilities related to these exit fees are as follows:

Note A	$ 271,751
Note B	3,136,716
Note C	541,315
Line of credit	350,178
Total	**$4,299,960**

NOTE 8 – LINE OF CREDIT

The Company has an outstanding line of credit with an affiliated entity of a majority stockholder. The line of credit bears interest at the greater of 10.0% or the LIBOR rate plus 4.0% or the Company may request the interest to be calculated at 4.0% per year.

During the year ended December 31, 2012, the line of credit agreement with an affiliated entity of a majority equity holder was amended. The amendment to the Company’s outstanding line of credit increased the line of credit to $2,250,000 from $1,500,000. In March 2013, in conjunction with the amendments to the Company’s notes payable amendments as discussed in Note 7, the line of credit was amended and restated to increase the facility size to $3,150,000 and to extend the maturity date to August 1, 2015. In August 2014, the facility size was further increased to $4,550,000. In February 2015, the maturity date was extended to August 2016.

At December 31, 2014 and 2013, the Company had outstanding borrowings under this agreement of $4,000,000 and $3,150,000, respectively. The Company drew down $850,000 and $981,659 on this line during the years ended December 31, 2014 and 2013, respectively. The interest rate at December 31, 2014 and 2013 was 4%. Interest payments are due monthly, and all amounts outstanding on the line are due as of the maturity date of August 1, 2016. The line is secured by substantially all assets of the Company.

NOTE 9 – SERIES A PREFERRED STOCK

As part of the acquisition of the Company on October 17, 2007, the Company issued 42 shares of Series A preferred stock for total consideration of $4,200,000. These shares entitle the holder to cumulative annual dividends at a rate of 8% accrued through February 26, 2013. On February 26, 2013, the Company modified its articles of incorporation related to the preferences of the Company’s preferred stock, whereby the preferred stock no longer accrue dividends effective February 26, 2013. As of December 31, 2014 and 2013, no dividends were declared by the Company’s board of directors or payable by the Company. At December 31, 2014 and 2013, the Series A preferred stock had a total liquidation preference of $6,121,689.

For so long as any shares of Series A Preferred Stock shall be outstanding, no dividend or distribution shall be paid or declared on any junior Security. Additionally, in the event of liquidation, dissolution or winding down, no payment shall be made on any Junior Security unless, in each case, all outstanding shares of Series A Preferred Stock shall be redeemed and paid in full. Dividends payable in additional shares of Junior Securities on any series of Junior Securities shall be permitted.

NOTE 10 – COMMON STOCK

The Company issued a fully vested common stock warrant pursuant to the Company's acquisition agreement dated October 17, 2007. The holder of this common stock warrant has the right to purchase 420 shares of the Company's common stock for a total exercise price of $1. In conjunction with the $700,000 notes payable issued in September 2012, the Company modified the warrant to increase the number of common stock available to be purchased to 920 shares. The value of the common stock warrant was not significant at the date of modification.

In conjunction with the issuance of the $350,000 and $100,000 notes payable issued during the year ended December 31, 2012, the Company issued warrants which allow the holder the right to purchase 250 and 71.43 common shares, respectively, for an exercise price of $0.50 and $0.14, respectively. The value of the common stock warrants was not significant at the date of issuance.

On February 26, 2013, all warrants were exercised for total proceeds of $1,829. Also on February 26, 2013, a stockholder sold common shares to the Company at $1.00 per share for a cash payment of $580. These shares were then retired by the Company.

On March 31, 2014, the majority stockholder of the Company exchanged 1,237.43 shares of Class A voting common stock for an equal number of shares of the Company's Class B nonvoting common stock. In addition, members of the Company's management team purchased 46 shares of the Company's Class A voting common stock at a price of $1 per share.

NOTE 11 – RESTRICTED STOCK GRANT

During the year ended December 31, 2008, the Company issued 61.5 restricted stock grants of the Company's Series A common stock. These stock grants vest accordingly: (1) 50% of these grants will vest over a five-year period, cliff vesting 20% each year from the anniversary of the grant date, and (2) 50% of these options will vest if certain performance targets for shareholder return are met upon a change in control or liquidation event. The Company has determined that the fair value of these stock grants and the related stock compensation expense is not significant.

During 2013, the Company issued 7.02 restricted stock grants of the Company's Series A common stock. These grants have the same vesting terms at the 2008 grants. The Company has determined that the fair value of these stock grants and the related stock compensation expense is not significant. During 2013, 17.29 restricted stock grants were forfeited and reverted to the Company. The number of restricted stock grants outstanding for the years ended December 31, 2014 and 2013 was 51.23 and 51.23, respectively.

NOTE 12 – EMPLOYEE BENEFIT PLANS

The Company maintains a qualified deferred compensation plan under Section 401(k) of the Internal Revenue Code ("the Code"). Under the plan, domestic employees may elect to defer up to 25% of their salaries subject to the Internal Revenue Service limits. The Company did not make any discretionary matching contributions to the plan during the years ended December 31, 2014 and 2013.

NOTE 13 – INCOME TAXES

The federal and state income tax provision is summarized as follows:

	2014	2013
Current		
Federal	$ —	$ —
State	1,600	1,600
Total current tax expense	1,600	1,600
Deferred		
Federal	—	—
State	—	—
Total deferred tax expense	—	—
Total tax expense	**$1,600**	**$1,600**

NOTE 13 – INCOME TAXES (Continued)

The tax effects of significant items comprising the Company's deferred taxes as of December 31, 2014 and 2013 are as follows

	2014	2013
Deferred tax assets:		
Net operating losses	$ 5,011,248	$ 4,066,276
Inventory reserve	379,787	498,771
Intangibles	566,411	538,478
General business credits	279,210	242,287
Accruals	112,146	116,006
Unicap inventory	—	25,621
State tax accrual difference	—	544
Goodwill	2,284,668	2,572,705
Total deferred tax assets	8,633,470	8,060,688
Deferred tax liabilities:		
Prepaids	(61,208)	(33,924)
Fixed assets	(605,427)	(665,591)
Total deferred tax liabilities	(666,635)	(699,515)
Valuation allowance	(7,966,835)	(7,361,173)
Net deferred taxes	$ —	$ —

FASB ASC Topic No. 740, "Income Taxes," requires that the tax benefit of net operating losses ("NOL"), temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. Because of the Company's recent history of operating losses, management believes that recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, has provided a valuation allowance. The valuation allowance increased by $605,662 and $855,933 during the years ended December 31, 2014 and 2013, respectively.

NOTE 13 – INCOME TAXES (Continued)

Net operating losses and tax credit carryforwards as of December 31, 2014 are as follows:

	Amount	Expiration Years
Net operating losses, federal	$12,492,128	2029–2034
Net operating losses, state	13,093,452	2018–2034
Federal tax credits	199,155	2027–2034
State tax credits	121,295	no expiration

The effective tax rate of the Company's provision for income taxes differs from the federal statutory rate for December 31, 2014 and 2013 principally due to increases in the valuation allowance.

Utilization of the NOL and tax credit carryforwards may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by the Code, as amended, as well as similar state provisions. In general, an "ownership change" as defined by the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups. Since the Company's formation, the Company has raised capital through the issuance of capital stock on several occasions which, combined with the purchasing stockholders' subsequent disposition of those shares, may have resulted in such an ownership change, or could result in an ownership change in the future upon subsequent disposition. The annual limitation may result in the expiration of NOL and tax credit carryforwards before utilization.

The Company has not completed a study to assess whether an ownership change has occurred or whether there have been multiple ownership changes since the Company's formation due to the complexity and costs associated with such a study and the fact that there may be additional ownership changes in the future. If the Company has experienced an ownership change at any time since its formation, utilization of the NOL or tax credit carryforwards to offset future taxable income and taxes, respectively, would be subject to an annual limitation under the Code, which is determined by first multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term, tax-exempt rate and then could be subject to additional adjustments, as required. Any limitation may result in expiration of all or a portion of the NOL carryforwards before utilization.

Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits and recognizable deferred tax benefits after the completion of an ownership change analysis is not expected to impact its effective tax rate.

The Company's tax years 2007 – 2014 will remain open for examination by federal and state authorities.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Company has on-going litigation with a former employee regarding a threatened wage claim. Management estimates any settlement is immaterial to the financial statements and should be covered by employment practices liability insurance.

The Company has agreements under noncancelable leases for office, production and warehouse facilities owned by a former stockholder through April 2015 with escalating rent payments. The Company also leases certain equipment under capital leases. The leases are collateralized by the underlying assets. At December 31, 2014 and 2013, property and equipment with a cost of $1,254,066 and $788,743, respectively, were subject to such financing arrangements. The minimum annual rental commitments and future minimum payments under capital lease and equipment financing arrangements are as follows:

Years Ending December 31,	Capital Leases	Operating Leases
2015	$ 226,087	$99,318
2016	167,347	—
2017	118,708	—
2018	92,800	—
2019	49,494	—
Total minimum future lease payments	654,436	$99,318
Less: amount representing interest	(104,045)	
Present value of minimum future lease payments	$ 550,391	

Rental expense under these agreements for the years ended December 31, 2014 and 2013 amounted to $294,586 and $290,578, respectively.

NOTE 15 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events for potential recognition and disclosure from January 1, 2015 through April 6, 2015, the date the financial statements were available to be issued. The Company identified one subsequent event that required disclosure in these financial statements.

In February 2015, the Company extended the maturity date for Notes A, B and C to August 2016, as disclosed in Note 7.

Exhibit 99.2

Report of Independent Auditors and
Consolidated Financial Statements

Danco Acquisition Corporation

December 31, 2012 and 2011

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Danco Acquisition Corporation

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Danco Acquisition Corporation (the "Company"), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Danco Acquisition Corporation as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
May 24, 2013

DANCO ACQUISITION CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 193,205	$ 320,275
Accounts receivable less allowance for doubtful accounts of $14,061 and $11,812 as of December 31, 2012 and 2011, respectively	1,748,314	1,450,930
Inventory	2,089,171	1,852,519
Prepaid expenses	94,679	129,100
Deferred income taxes	—	208,855
Total current assets	4,125,369	3,961,679
FIXED ASSETS, net	2,475,429	2,976,299
GOODWILL	—	11,006,573
DEBT ISSUANCE COSTS, net	148,722	340,157
INTANGIBLE ASSETS, net	573,790	973,211
OTHER ASSETS	35,148	35,148
Total assets	$ 7,358,458	$19,293,067
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 549,437	$ 230,939
Accrued liabilities	1,258,258	830,652
Line of credit	—	1,500,000
Current portion - capital leases	139,093	139,092
Current portion - long-term debt	—	2,621,106
Total current liabilities	1,946,788	5,321,789
LINE OF CREDIT	2,250,000	—
CAPITAL LEASES, net of current portion	266,076	405,168
LONG-TERM DEBT, net of current portion	14,520,514	10,845,364
DEFERRED INCOME TAXES	—	1,079,691
Total liabilities	18,983,378	17,652,012
COMMITMENTS (Note 13)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, $0.0001 par value; 2,000 shares authorized 42 shares issued and outstanding	3,791,735	3,791,735
Common stock, $0.0001 par value; 10,000 shares authorized 580 shares issued and outstanding	8,300	8,300
Accumulated deficit	(15,424,955)	(2,158,980)
Total stockholders' equity (deficit)	(11,624,920)	1,641,055
Total liabilities and stockholders' equity (deficit)	$ 7,358,458	$19,293,067

See accompanying notes.

DANCO ACQUISITION CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2012 and 2011

	2012	2011
SALES	$ 11,550,385	$ 12,442,718
COST OF SALES	10,440,689	10,506,879
GROSS PROFIT	1,109,696	1,935,839
GENERAL AND ADMINISTRATIVE EXPENSES	2,608,245	2,440,388
GOODWILL IMPAIRMENT	11,006,573	—
OPERATING LOSS	(12,505,122)	(504,549)
OTHER INCOME (EXPENSE)		
Interest expense	(1,728,071)	(1,929,722)
Interest income	46	266
Other income, net	97,898	41,980
	(1,630,127)	(1,887,476)
NET LOSS BEFORE INCOME TAXES	(14,135,249)	(2,392,025)
(PROVISION FOR) BENEFIT FROM INCOME TAXES	869,274	(743,805)
NET LOSS	$ (13,265,975)	$ (3,135,830)

See accompanying notes.

DANCO ACQUISITION CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2012 and 2011

	Preferred Stock		Common Stock		Accumulated (Deficit) Retained Earnings	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount		
Balance as of December 31, 2010	42	$3,791,735	580	$ 8,300	$ 976,850	$ 4,776,885
Net loss	—	—	—	—	(3,135,830)	(3,135,830)
Balance as of December 31, 2011	42	3,791,735	580	8,300	(2,158,980)	1,641,055
Net loss	—	—	—	—	(13,265,975)	(13,265,975)
Balance as of December 31, 2012	42	$3,791,735	580	$ 8,300	$ (15,424,955)	$ (11,624,920)

See accompanying notes.

DANCO ACQUISITION CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	$ (13,265,975)	$ (3,135,830)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation expense	595,996	521,007
Amortization expense	399,421	420,255
Amortization of debt issuance costs	191,435	220,788
Deferred income taxes	(870,836)	724,392
Allowance for doubtful accounts	(2,249)	20,411
Gain on disposal of fixed assets	(84,828)	(22,185)
Goodwill impairment	11,006,573	—
Changes in operating assets and liabilities:		
Accounts receivable	(295,135)	574,437
Inventory	(236,652)	909,701
Prepaid expenses and other assets	34,421	57,622
Accounts payable and accrued liabilities	609,857	(200,342)
Accrued interest	136,247	160,753
Total adjustments	11,484,250	3,386,839
Net cash from operating activities	(1,781,725)	251,009
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of fixed assets	(97,398)	(97,165)
Proceeds from sale of fixed assets on disposal	87,100	36,000
Net cash from investing activities	(10,298)	(61,165)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(95,956)	(779,713)
Proceeds for notes payable	1,150,000	—
Net proceeds from line of credit	750,000	400,000
Payments on capital leases	(139,091)	(221,145)
Net cash from financing activities	1,664,953	(600,858)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(127,070)	(411,014)
CASH AND CASH EQUIVALENTS, beginning of year	320,275	731,289
CASH AND CASH EQUIVALENTS, end of year	$ 193,205	$ 320,275
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest expense paid	$ 1,400,389	$ 1,551,188
Income taxes paid	$ 1,509	$ 1,600
Income taxes refunds received	$ 144,958	$ —
Non-cash investing and financing activities		
Property and equipment purchased under capital lease	$ —	$ 472,511

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business – DPMS, Inc. dba Danco Machine DPMS (the "Company" or "Danco") was founded in 1979 to meet the challenge of providing competitively priced, quality prototype machining services to the emerging high-tech industries of the Silicon Valley.

On October 17, 2007, the Company was acquired by Danco Acquisition Corporation, an entity created by a group of private equity firms to facilitate their acquisition of the Company. The transaction was effected so that Danco would have the necessary financial and managerial resources available to continue to strategically grow. These financial statements contain the consolidated results of Danco Acquisition Corporation and its wholly owned subsidiary DPMS, Inc.

Liquidity and management's plans – The Company experienced losses during 2011 and 2012 due to a reduction in demand for machining services from the Company's existing customers. Management has plans to return the Company to profitability and positive cash flows. Subsequent to year-end, the Company has made changes in certain senior management positions as part of its strategy to move toward positive cash flows. Management is closely monitoring its demand, and if demand does not increase as expected, management may implement cost-cutting measures, including reductions of its labor force. If strategies to improve margins and reduce operating costs are not successful, and the Company is not able to meet its debt obligations, then the Company will need to further reduce expenses or raise additional capital through other sources.

The Company also has $11,370,514 of notes payable and a line of credit balance of $2,250,000 that were extended during 2012 to mature in 2014 and 2015. These balances are payable to a lender who is an affiliated entity of a stockholder of the Company. This stockholder has demonstrated continued support for its investment in the Company. Subsequent to year-end, this stockholder increased their preexisting ownership stake and is currently the majority common stockholder of the Company. If the Company is unable to improve the cash flow from operations, the Company will need to seek additional capital from the stockholders or other sources. However, there is no assurance that the stockholders will continue to provide capital to the Company or that the Company will be able to obtain additional capital from other sources.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should it be unable to continue as a going concern.

Cash and cash equivalents– The Company considers all highly liquid investments purchased with original maturity of three months or less to be cash equivalents.

Revenue recognition and allowance for doubtful accounts – Revenue from the sale of products is recognized when the products are shipped in accordance with contract terms. Accounts receivable is stated at an amount that management believes to be collectible. Historically, bad debts have been within management's expectations.

Inventory – Inventory is stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market. The Company evaluates the valuation of all inventory, including raw materials, work-in-process, finished goods and spare parts on a periodic basis. Obsolete inventory or inventory in excess of management's estimated usage is written-down to its estimated market value less costs to sell, if less than its cost. Inherent in the estimates of market value are management's estimates related to economic trends, future demand for products, and technological obsolescence of the Company's products.

Property and equipment – Property and equipment are recorded at cost and include improvements that significantly add to productive capacity or extend useful life. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to fifteen years. Repair and maintenance costs that do not increase the useful lives and/or enhance the value of the assets are charged to operations as incurred. Leasehold improvements are stated at cost and amortized over the lesser of the terms of the respective leases or the assets' useful lives.

The Company evaluates their long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets consist primarily of property and equipment. Recoverability of assets is measured by a comparison of the carrying amount of an asset group to future net cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment charge is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell. The Company did not recognize any impairment charges associated with long-lived assets for the years ended December 31, 2012 and 2011.

Goodwill and other intangible assets – Goodwill and other intangible assets are accounted for in accordance with ASC 350,*Goodwill and Other Intangible Assets*. Goodwill represents the excess of cost over the estimated fair value of net assets acquired by the Company. Other intangible assets are amortized on a straight-line basis over the period of expected benefit with a weighted-average useful life of approximately 5.4 years with no calculated residual value. The estimated useful lives of identifiable intangible assets are as follows:

Description	Period
Covenants not to compete	5 years
Customer lists	7 years

The Company assesses the impairment of goodwill on an annual basis on December 31. Goodwill is also tested for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable.

Due to the Company's losses from operations over the past two years, the Company concluded that the goodwill balance was likely fully impaired. As such, the Company recorded an impairment loss of $11,006,573 in its statement of operations during the year ended December 31, 2012.

Debt issuance costs – The Company amortizes debt issuance costs using the effective interest method over the term of the related notes payable.

Income taxes – Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Shipping and handling – Shipping and handling charges billed to customers are included in sales. The costs of shipping to customers are included in cost of sales in the Company's consolidated statement of operations.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk – The Company has a concentration of credit risk with respect to its trade receivables. The Company provides unsecured and interest-free credit, in the normal course of business, to its customers, and receivables are considered past due based on payment terms with customers. Management performs ongoing credit evaluations of its customers and monitors the receivable balances on a regular basis. An allowance for doubtful accounts is recorded based on management's evaluation of outstanding receivables. Receivables are written off when all methods of collection have been exhausted and have been within the range of management's expectations. Management believes its credit acceptance, billing, and collection policies are adequate to minimize potential credit risk.

The Company has a concentration of credit risk with respect to the volume of business transacted with certain customers. Two customers accounted for approximately 71%, and 73% of the Company's sales for the years ended December 31, 2012 and 2011, respectively. Three customers represented approximately 79%, and two customers represented approximately 85% of the Company's accounts receivable as of December 31, 2012 and 2011, respectively.

The Company has a concentration of credit risk with respect to financial instruments, which consist of cash deposits in excess of federally insured limits. The Company maintains its cash with high-credit, quality financial institutions.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are issued or are available to be issued.

The Company has evaluated subsequent events through May 24, 2013, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – INVENTORY

Inventory consists of the following as of December 31, 2012 and 2011:

	2012	2011
Raw materials and work in progress	$ 1,267,386	$ 855,293
Finished goods	2,297,758	2,343,504
	3,565,144	3,198,797
Less inventory reserve	(1,475,973)	(1,346,278)
Total inventory	$ 2,089,171	$ 1,852,519

NOTE 3 – FIXED ASSETS

Fixed assets consist of the following as of December 31, 2012 and 2011:

	2012	2011
Machinery and equipment	$ 4,666,529	$ 4,676,765
Software	161,215	154,458
Office equipment	58,609	58,609
Leasehold improvements	18,857	18,857
Automobile	13,701	13,701
	4,918,911	4,922,390
Less: accumulated depreciation	(2,443,482)	(1,946,091)
Total fixed assets	$ 2,475,429	$ 2,976,299

The Company recorded $595,996 and $521,007 in total depreciation expense for the years ended December 31, 2012 and 2011, respectively. Of these amounts, depreciation expense related to assets acquired under capital leases was $179,003 and $92,807 for the years ended December 31, 2012 and 2011, respectively. Accumulated depreciation related to assets acquired under capital leases was $320,120 and $141,117 as of December 31, 2012 and 2011, respectively.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets consist of the following as of December 31, 2012 and 2011:

	2012	2011
Customer relationships	$ 2,241,784	$ 2,241,784
Covenant not to compete	500,000	500,000
Gross intangible assets	2,741,784	2,741,784
Less: accumulated amortization	(2,167,994)	(1,768,573)
Total intangible assets	$ 573,790	$ 973,211

The aggregate amortization expense for the years ended December 31, 2012 and 2011 was $399,421 and $420,255, respectively. The estimated aggregate amortization expense for each of the two succeeding years is as follows:

Year Ending December 31,	
2013	$320,255
2014	253,535
Total future amortization expenses	$573,790

NOTE 5 – DEBT ISSUANCE COSTS

Debt issuance costs are capitalized on the balance sheet resulting from entering into financing arrangements as part of the acquisition of the Company by Danco Acquisition Corporation on October 17, 2007. The aggregate amortization expense for the years ended December 31, 2012 and 2011 was $191,435 and $220,788, respectively. The estimated aggregate expense of these costs is as follows:

Year Ending December 31,	
2013	$148,722
Total debt issuance costs	$148,722

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following as of December 31, 2012 and 2011:

	2012	2011
Note payable to affiliated entity of a majority equity holder in the Company, secured by substantially all assets of the Company. The interest rate is stated as the greater of 10% or the libor rate plus 4%, payable monthly (actual rate was 10% as of December 31, 2012 and 2011, respectively). This note is subject to certain financial performance related covenants, which were waived as a part of an amendment to the note subsequent to the year ended December 31, 2012. As a part of the amendments of the note subsequent to the year ending December 31, 2012, the timing of the principal payments were modified. The notes maturity date is August 2015.	$2,575,000	$2,575,000
Note payable to affiliated entity of a majority equity holder in the Company, secured by substantially all assets of the Company. As part of an amendment to the note during the year ended December 31, 2012, the interest rate is stated as the greater of 6.5% or the libor rate plus 3.125%, payable monthly (actual rate was 6.5% as of December 31, 2012. For the year ended December 31, 2011, the interest rate was stated as the greater of 12.5% or the libor rate plus 6.25%, payable monthly (actual rate was 12.5% as of December 31, 2011). This note is subject to certain financial performance related covenants, which were waived as a part of an amendment to the note subsequent to the year ended December 31, 2012. As a part of the amendments of the note subsequent to the year ending December 31, 2012, the timing of the principal payments were modified. The notes maturity date is August 2015.	8,795,514	8,891,470
Note payable to affiliated entity of a majority equity holder in the Company, secured by substantially all assets of the Company. The interest rate is stated as the greater of 5% or the libor rate plus 4.75%, payable monthly (actual rate was 5% as of December 31, 2012). This note is subject to certain financial performance related covenants, which were waived as a part of an amendment to the note subsequent to the year ended December 31, 2012. Interest is due and payable monthly, in arrears, commencing on September 1, 2012. The notes maturity date is August 2015.	700,000	—

	2012	2011
Note payable to affiliated entity of a majority equity holder in the Company, secured by substantially all assets of the Company. The interest rate is stated as the greater of 5% or the libor rate plus 4.75%, payable monthly (actual rate was 5% as of December 31, 2012). This note is subject to certain financial performance related covenants, which were waived as a part of an amendment to the note subsequent to the year ended December 31, 2012. Interest is due and payable monthly, in arrears, commencing on October 1, 2012. The notes maturity date in August 2015.	350,000	—
Note payable to affiliated entity of a majority equity holder in the Company, secured by substantially all assets of the Company. The interest rate is stated as the greater of 5% or the libor rate plus 4.75%, payable monthly (actual rate was 5% as of December 31, 2012). This note is subject to certain financial performance related covenants, which were waived as a part of an amendment to the note subsequent to the year ended December 31, 2012. Interest is due and payable monthly, in arrears, commencing on January 1, 2013. The notes maturity date in August 2015.	100,000	—
Note payable to affiliated entity of a majority equity holder in the Company, subordinated to all other debt held by the Company. Bears interest at 7.0%, compounded semi-annually and payable quarterly. The note was previously amended to suspend interest payments until the Company meets certain financial measurements. At December 31, 2012 and 2011, accrued interest related to this note was $584,092 and $411,372, respectively. Principal payments are equal to the amount that annual earnings before interest, taxes, deprecation, and amortization (“EBITDA”) exceeds $4,500,000, which require the approval of the senior debt holders for payment. The note matures in February 2016.	2,000,000	2,000,000
	14,520,514	13,466,470
Less current portion	—	2,621,106
	$14,520,514	$10,845,364

Interest expense on related party loans for the year ended December 31 2012, and 2011 was $1,338,520 and $1,532,340, respectively. $93,795 and $130,269 remained payable at December 31, 2012 and 2011, respectively.

Minimum annual payments are as follows:

Years Ending December 31,	
2013	$ —
2014	—
2015	12,520,514
2016	2,000,000
Total minimum annual payments	$14,520,514

NOTE 7 – LINE OF CREDIT

The Company has an outstanding line of credit with an affiliated entity of a majority equity holder. The line of credit bears interest at the greater of 10.0% or LIBOR rate plus 4.0%, per year.

During the year ended December 31, 2012, the line of credit agreement with an affiliated entity of a majority equity holder was amended in conjunction with the amendments to the Company’s notes payable amendments as discussed in Note 6. The amendment to the Company’s outstanding line of credit increased the line of credit to $2,250,000 from $1,500,000. Subsequent to December 31, 2012, the line of credit was amended and restated to increase the facility size to $3,150,000 and to extend the maturity date to August 1, 2015.

At December 31, 2012 and 2011, the Company had outstanding borrowings under this agreement of $2,250,000 and $1,500,000, respectively. The Company drew down $750,000 and $400,000 on this line during the years ended December 31, 2012 and 2011, respectively. The interest rate at both December 31, 2012 and 2011 was 10%. Interest payments are due monthly, and all amounts outstanding on the line are due as of the lines maturity date of August 1, 2015. The line is secured by substantially all assets of the Company.

NOTE 8 – SERIES A PREFERRED STOCK

As part of the acquisition of the Company on October 17, 2007, the Company issued 42 shares of Series A preferred stock for total consideration of $4,200,000. These shares entitle the holder to cumulative annual dividends at a rate of 8% accrued through February 26, 2013. On February 26, 2013, the Company modified its articles of incorporation related to the preferences of the Company's preferred stock, whereby the preferred stock no longer accrue dividends effective February 26, 2013. As of December 31, 2012, no dividends were declared by the Company's Board of Directors or payable by the Company. At December 31, 2012 and 2011, the Series A preferred stock had a total liquidity preference of $6,065,689 and $5,634,533 in the event of a liquidity event, respectively.

For so long as any shares of Series A Preferred Stock shall be outstanding, no dividend or distribution shall be paid or declared on any Junior Security. Additionally, in the event of liquidation, dissolution or winding down, no payment shall be made on any Junior Security unless, in each case, all outstanding shares of Series A Preferred Stock shall be redeemed and paid in full. Dividends payable in additional shares of Junior Securities on any series of Junior Securities shall be permitted.

NOTE 9 – COMMON STOCK WARRANTS

The Company issued a fully vested common stock warrant pursuant to the Company's acquisition agreement dated October 17, 2007. The holder of this common stock warrant has the right to purchase 420 shares of the Company's common stock for a total exercise price of $1. In conjunction with the $700,000 notes payable issued in September 2012 (Note 6), the Company modified the warrant to increase the number of common stock available to be purchased to 920 shares. The value of the common stock warrant was not significant at the date of modification.

In conjunction with the issuance of the $350,000 and $100,000 notes payable issued during the year ended December 31, 2012 (Note 6), the Company issued warrants which allow the holder to the right to purchase 250 and 71.43, respectively, for an exercise price of $0.50 and $0.14, respectively. The value of the common stock warrants was not significant at the date of issuance.

On February 26, 2013, all warrants were exercised, as discussed in Note 14.

NOTE 10 – RESTRICTED STOCK GRANT

During the year ended December 31, 2008, the Company issued 61.5 restricted stock grants of the Company's Series A common stock. These stock grants vest accordingly: (1) 50% of these grants will vest over a five year period, cliff vesting 20% each year from the anniversary of the grant date, and (2) 50% of these options will vest if certain performance targets for shareholder return are met upon a change in control or liquidation event. The Company has determined that the fair value of these stock grants and the related stock compensation expense is not significant. During 2012, 25 restricted stock grants were forfeited and reverted to the Company. The number of restricted stock grants outstanding for the years ended December 31, 2012 and 2011 was 26.5 and 51.5, respectively.

NOTE 11 – EMPLOYEE BENEFIT PLANS

The Company maintains a qualified deferred compensation plan under Section 401(k) of the Internal Revenue Code. Under the plan, domestic employees may elect to defer up to 25% of their salaries subject to the Internal Revenue Service limits. The Company did not make any discretionary matching contributions to the plan during the years ended December 31, 2012 and 2011.

NOTE 12 – INCOME TAXES

The federal and state income tax provision is summarized as follows:

	2012	2011
Current		
Federal	$ —	$ 17,813
State	1,561	1,600
Total current tax expense	1,561	19,413
Deferred		
Federal	(709,594)	522,923
State	(161,241)	201,469
Total deferred tax expense	(870,835)	724,392
Total tax (benefit) expense	$(869,274)	$743,805

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating losses and tax credit carry forwards.

The tax effects of significant items comprising the Company's deferred taxes as of December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred tax assets:		
Net operating losses	$ 3,005,509	$ 1,594,239
Inventory reserve	587,945	536,282
Intangibles	439,899	369,398
General business credits	212,881	191,530
Accruals	138,798	95,914
Unicap inventory	27,996	23,538
State tax accrual difference	544	544
Goodwill	2,860,743	—
Total deferred tax assets	7,274,315	2,811,445
Deferred tax liabilities:		
Intangibles	—	—
Prepaids	(37,433)	(30,569)
Fixed assets	(731,641)	(695,956)
Goodwill	—	(1,169,987)
Total deferred tax liabilities	(769,074)	(1,896,512)
Valuation allowance	(6,505,241)	(1,785,769)
Net deferred taxes	$ —	$ (870,836)

ASC 740 requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. Because of the Company's recent history of operating losses, management believes that recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, has provided a valuation allowance. The valuation allowance increased by $4,719,472 and $1,785,769 during the years ended December 31, 2012 and 2011, respectively. The net deferred tax liability as of December 31, 2011 was eliminated through a current year tax benefit as a result of the full impairment of the goodwill as of December 31, 2012. The amount of the valuation allowance for deferred tax assets associated with excess tax deduction from stock based compensation arrangement that is allocated to contributed capital if the future tax benefits are subsequently recognized is $0.

Net operating losses and tax credit carryforwards as of December 31, 2012 are as follows:

	Amount	Expiration Years
Net operating losses, federal	$ 7,447,370	2029-2032
Tax credits, federal	142,771	2027-2032
Tax credits, state	106,228	No expiration

The effective tax rate of the Company's provision for income taxes differs from the federal statutory rate for December 31, 2012 and 2011 as follows:

	2012	2011
Statutory rate	34.0%	34.0%
State tax	6.0%	8.0%
Various permanent differences	-1.0%	0.0%
General business credit	0.0%	3.0%
Other	0.0%	-1.0%
Change in valuation allowance	-33.0%	-75.0%
Total	6.0%	-31.0%

NOTE 13 – COMMITMENTS

The Company has agreements under noncancelable leases for office, production, and warehouse facilities owned by a former stockholder through April 2014 with escalating rent payments. The Company also leases certain equipment under capital leases. The leases are collateralized by the underlying assets. At December 31, 2012 and 2011, property and equipment with a cost of $886,567, respectively, were subject to such financing arrangements. The minimum annual rental commitments and future minimum payments under capital lease and equipment financing arrangements are as follows:

Year Ending December 31,	Capital Leases	Operating Leases
2013	$ 164,412	$ 291,230
2014	164,412	97,550
2015	113,293	—
2016	62,118	—
Total minimum future lease payments	504,235	$ 388,780
Less: amount representing interest	(99,066)	
Present value of minimum future lease payments	405,169	
Less: current portion	(139,093)	
Noncurrent portion of minimum future lease payments	$ 266,076	

Rental expense under these agreements for the years ended December 31, 2012 and 2011 amounted to $258,247 and $251,732, respectively. At December 31, 2012 and 2011, deferred rent was $865 and $10,126, respectively.

NOTE 14 – SUBSEQUENT EVENTS

On February 26, 2013, a stockholder sold His or Her common equity to the Company. These shares were then retired by the Company. Concurrently, the holder common of the stock warrants (Note 9) exercised their right to purchase 1,241.43 shares of the Company's common stock.

On February 27, 2013, Danco Acquisition entered into an agreement with Galaxy Technologies, Inc., whereby Galaxy Technologies, Inc., shall provide management services to the Company. Under the agreement Danco Acquisition grants the exclusive rights for Galaxy Technologies, Inc., to acquire the Company. The option is exercisable between February 27, 2015, and February 27, 2018. Further, Galaxy Technologies holds a right of first refusal in the event of the sale of the Company, which expires on February 27, 2023.

On March 29, 2013, the notes payable to an affiliated entity of a majority equity holder were modified to allow the Company to request interest on the notes to be calculated at 4% instead of the stated rates in the notes each month. The rate change will be approved at the sole discretion of the lender. For January, February, March and April 2013 the Company requested the 4% rate, and the lender approved the rate change.

Exhibit 99.3

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(UNAUDITED)

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013

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GALAXY TOOL HOLDING CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

(unaudited)

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 469,549**	$ 1,937,968
Accounts receivable less allowance for doubtful accounts of $10,000	**4,106,108**	4,496,129
Inventories	**3,404,041**	4,280,123
Income taxes receivable	**71,076**	64,000
Prepaid expenses	**98,201**	92,796
Deferred income taxes	**1,210,000**	135,000
Total current assets	**9,358,975**	11,006,016
PROPERTY, PLANT AND EQUIPMENT		
Land	**9,000**	9,000
Buildings and improvements	**7,224,922**	3,402,270
Machinery and equipment	**13,951,851**	10,027,999
Computer hardware and software	**670,987**	491,574
Office furniture and fixtures	**158,054**	93,159
Installations in progress	**—**	3,090,561
	22,014,814	17,114,563
Less accumulated depreciation	**6,264,924**	4,553,717
Net property and equipment	**15,749,890**	12,560,846
OTHER ASSETS		
Goodwill	**8,679,091**	8,679,091
Customer list, net	**833,284**	1,563,535
	9,512,375	10,242,626
	$ 34,621,240	$ 33,809,488

	2014	2013
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 1,163,485**	$ 920,754
Construction lines-of-credit	**2,413,779**	1,781,885
Revolving line-of-credit	**2,050,250**	—
Accounts payable	**3,039,602**	2,217,019
Accrued expenses	**1,581,294**	1,893,968
Deferred revenue	**828,585**	1,759,401
Total current liabilities	**11,076,995**	8,573,027
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	**20,099,627**	18,832,335
Deferred income taxes	**1,767,000**	2,348,000
Total liabilities	**32,943,622**	29,753,362
STOCKHOLDERS' EQUITY		
Preferred stock, Series A, par value $.01 per share; 5,000,000 shares authorized and 4,111,907 shares issued and outstanding, total liquidation preference of outstanding shares of $10,026,708	**4,028,707**	4,028,707
Preferred stock, Series B, par value $.01 per share; 5,000,000 shares authorized and 4,438,093 shares issued and outstanding, total liquidation preference of outstanding shares of $6,432,086	**4,138,093**	4,138,093
Preferred stock, Series C, par value $.01 per share; 1,000,000 shares authorized and 927,480 shares issued and outstanding, total liquidation preference of outstanding shares of $5,964,377	**3,246,178**	3,246,178
Preferred stock, Series D, par value $.01 per share; 1,000,000 shares authorized and 1,000,000 shares issued and outstanding, total liquidation preference of outstanding shares of $6,865,242	**4,105,731**	4,105,731
Common stock, Class A, par value $.01 per share; 200,000 shares authorized and 92,657 share issued and outstanding	**927**	927
Common stock, Class B, par value $.01 per share; 50,000 shares authorized and 48,093 shares issued and outstanding	**481**	481
Common stock, Class C, par value $.01 per share; 1,000 shares authorized and 1,000 shares issued and outstanding; issued for no consideration	**—**	—
Additional paid-in capital	**99,000**	99,000
Retained earnings (deficit)	**(6,890,021)**	(4,511,513)
Excess of consideration paid over consideration contributed by continuing stockholder interests	**(7,051,478)**	(7,051,478)
Total stockholders' equity	**1,677,618**	4,056,126
	$34,621,240	$33,809,488

The accompanying notes are an integral part
of these consolidated financial statements.

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2014 and 2013

(unaudited)

	2014	2013
Net Sales	**$27,059,611**	$34,675,926
Cost of goods sold	**24,999,893**	25,962,117
Gross profit	**2,059,718**	8,713,809
General and administrative expenses	**3,550,214**	4,674,257
Operating (loss) profit	**(1,490,496)**	4,039,552
Interest expense	**2,548,917**	2,094,454
Income (loss) before income taxes	**(4,039,413)**	1,945,098
Income tax (benefit) expense	**(1,660,905)**	574,000
Net (loss) income	**$ (2,378,508)**	$ 1,371,098

The accompanying notes are an integral part
of these consolidated financial statements.

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2014 and 2013

(unaudited)

	Preferred Stock				Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Excess of Consideration Paid Over Consideration Contributed by Continuing Stockholder Interests	Total
	Series A	Series B	Series C	Series D	Class A	Class B				
Balance, December 31, 2012	$4,028,707	$4,138,093	$3,246,178	$12,300,000	$ 927	$ 481	$ 99,000	$(1,776,880)	$ (7,051,478)	$14,985,028
Equity to debt conversion				(8,194,269)						(8,194,269)
Non-cash distribution in equity to debt conversion								(4,105,731)		(4,105,731)
Net income	—	—	—	—	—	—	—	1,371,098	—	1,371,098
Balance, December 31, 2013	4,028,707	4,138,093	3,246,178	4,105,731	927	481	99,000	(4,511,513)	(7,051,478)	4,056,126
Net loss	—	—	—	—	—	—	—	(2,378,508)	—	(2,378,508)
Balance, December 31, 2014	**$4,028,707**	**$4,138,093**	**$3,246,178**	**$ 4,105,731**	**$ 927**	**$ 481**	**$ 99,000**	**$(6,890,021)**	**$ (7,051,478)**	**$ 1,677,618**

The accompanying notes are an integral part
of these consolidated financial statements.

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

(unaudited)

	2014	2013
Cash flows from operating activities:		
Net (loss) income	**$ (2,378,508)**	$ 1,371,098
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation	**1,722,438**	1,391,072
Amortization	**730,251**	751,827
Deferred income tax (benefit) expense	**(1,656,000)**	112,000
(Gain) loss on sale of equipment	**(795)**	5,914
Change in operating assets and liabilities:		
Accounts receivable	**390,021**	1,026,912
Prepaid expenses	**(5,405)**	(18,748)
Inventories	**876,082**	(1,466,754)
Income taxes	**(7,076)**	(304,000)
Accounts payable and accrued expenses	**509,909**	601,736
Deferred revenue	**(930,816)**	1,396,271
Net cash from operating activities	**(749,899)**	4,867,328
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(4,919,510)**	(6,727,905)
Proceeds from sale of property, plant and equipment	**8,823**	—
Net cash from investing activities	**(4,910,687)**	(6,727,905)
Cash flows from financing activities:		
Net borrowings on revolving credit agreement	**2,050,250**	—
Borrowings on long-term debt	**3,131,894**	3,856,622
Principal payments on long-term debt	**(989,977)**	(531,733)
Net cash from financing activities	**4,192,167**	3,324,889
Change in cash	**(1,468,419)**	1,464,312
Cash at beginning of year	**1,937,968**	473,656
Cash at end of year	**$ 469,549**	$ 1,937,968
Supplemental disclosure of cash flow information:		
Interest paid	**$ 2,541,700**	$ 2,055,401
Equity to debt conversion	**$ —**	$ 12,300,000
Taxes	**$ —**	$ 771,000

The accompanying notes are an integral part
of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Operations—Galaxy Tool Holding Corporation and Subsidiary (d/b/a Galaxy Technologies) is in the business of manufacturing and designing precision tools and parts, fabricating steel and aluminum assemblies, and producing secondary equipment for the customers in the aerospace industry. Additionally, the Company serves customers in the plastic products industry with manufacturing and repairing injection and blow molds and designing component parts and secondary equipment. The Company's customers are located throughout the United States and internationally. The Company is headquartered in Winfield, Kansas, where it has a manufacturing facility.

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of Galaxy Tool Holding Corporation and its wholly-owned subsidiary, Galaxy Technologies, Inc. (the "Company"). All material intercompany related party balances and transactions have been eliminated in the consolidation.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities, (2) disclosures such as contingencies, and (3) the reported amounts of revenues and expenses included in such financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents—For purposes of reporting the statements of cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less, to be cash equivalents. The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Accounts Receivable, Trade—Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 to 60 days, depending on the customer. Interest is not charged on past due accounts.

Inventories—Inventories are stated at the lower of cost or market, with cost determined by the first-in, first-out (FIFO) method. Work-in-process includes material, labor, and allocable factory overhead costs.

Property, Plant and Equipment—Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method, using estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

1. BUSINESS OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Customer List—The Company is amortizing its customer list, using a straight-line method, over a 7½ year period.

Goodwill—Goodwill is not amortized, but is subject to an annual impairment test, as well as when an event triggering impairment may have occurred. The Company has elected to perform its annual analysis during the fourth quarter. No indicators of impairment were identified for the years ended December 31, 2014 and 2013.

Impairment of Long-Lived Assets—Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimate future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment losses recognized for the years ending December 31, 2014 or 2013.

Deferred Revenue—Deferred revenue represents deposits and progress billings on jobs in progress.

Income Taxes—Deferred tax assets and liabilities are recognized for temporary differences and loss carryforwards. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. When applicable, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes the financial statement effects of a tax position only when it believes it can more likely than not sustain the position upon an examination by the relevant tax authority. Tax years that remain subject to examination in the Company’s major tax jurisdictions (Federal and State of Kansas) are 2011, 2012, 2013 and 2014.

Revenue Recognition—Revenue is recognized upon shipment of goods. Shipping and handling charges are included in revenue. Shipping and handling costs are included in cost of goods sold.

Advertising Costs—The Company expenses costs of advertising as they are incurred. Advertising expense for the years ended December 31, 2014 and 2013 was $27,694 and $45,974, respectively.

Subsequent Events—Subsequent events have been evaluated through March 17, 2015, which is the date the financial statements were available to be issued.

2. BUSINESS ACQUISITION

On August 22, 2008, the Company acquired 100% of the stock of Galaxy Tool Corporation and its subsidiary, Encompass Tool & Machine, Inc., under the terms of a stock purchase agreement. The stock purchase transaction was accounted for in accordance with EITF Issue No. 88-16, *Basis in Leveraged Buyout Transactions*, and EITF Issue No. 90-12, *Allocating Basis in Individual Assets and Liabilities for Transactions Within the Scope of EITF Issue No. 88-16* The aggregate purchase price was allocated to the assets and liabilities of the Company based upon an allocation of their respective carryover and fair market values. The carryover interest on the transaction was 38.6%. The portion of the acquisition recognized at fair value was 61.4%. The caption “consideration paid over consideration contributed by continuing stockholder interests” within the equity section of the accompanying balance sheets represents the difference between the fair value and the carrying value of the 38.6% carryover interest.

3. INVENTORIES

Inventories consist of the following at December 31:

	2014	2013
Raw materials	$ 266,991	$ 322,947
Work-in-process parts and labor	3,137,050	3,957,176
	$3,404,041	$4,280,123

4. INSTALLATIONS IN PROGRESS

During 2013, the Company started an expansion project to expand capabilities of the Company. The expansion consists of new equipment and a new building to house the equipment. The total expected cost of the expansion project for the building and equipment was estimated at $5 million. Included in installations in progress at December 31, 2013, are costs of $3,090,561 ($1,784,084 for the building and $1,306,477 for the equipment). These costs have been financed through construction lines of credit (see Note 7). This project was completed and the respective assets were placed in service during 2014. The construction line of credit related to the new building was converted to an amortizing term note during 2014, and the construction line of credit related to the new equipment was converted to a term note subsequent to December 31, 2014 (see Note 7).

5. DEPRECIATION

Depreciation expense for the years ended December 31, 2014 and 2013, based on useful lives shown below, consists of:

	2014	2013	Useful Lives
Building and improvements	$ 100,776	$ 92,060	40 years
Machinery and equipment	1,528,938	1,214,675	3 to 10 years
Computer hardware and software	84,660	77,000	3 to 10 years
Office furniture and equipment	8,064	7,337	3 to 10 years
	$1,722,438	$1,391,072	

6. INTANGIBLE ASSETS

The net values for intangible assets at December 31, 2014 and 2013 were as follows:

	2014			2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Customer list	$5,476,880	$(4,643,596)	$ 833,284	$5,476,880	$(3,913,345)	$1,563,535

Amortization expense of the customer list for the years ended December 31, 2014 and 2013 was $730,251. Estimated amortization expense for each of the following years is:

2015	$730,251
2016	103,033
	$833,284

Goodwill of $8,679,091 was recognized with the acquisition as described in Note 2 and there were no changes in its carrying amount for the years ended December 31, 2014 and 2013.

7. REVOLVING LINES-OF-CREDIT AND LONG-TERM DEBT

Revolving Lines-of-Credit—The Company has a revolving line of credit agreement with a shareholder of the Company that expires on September 30, 2015. Under the agreement, the Company may borrow up to $2,500,000. The unpaid principal balance carries an interest rate of LIBOR plus 8% with a minimum interest rate of 10% per annum. The interest rate as of December 31, 2014 was 10%. This revolving line-of-credit is also subject to an unused revolving commitment fee of 1% each month prior to the maturity date, as well as the terms and conditions that are outlined in the security agreement applicable to the subordinated notes payable shown below. At December 31, 2014, $2,050,250 was drawn on the line and $499,750 was available. Subsequent to year end, this line was extended to allow the Company to borrow up to $4,500,000. All other terms remained the same.

Under terms of the revolving line-of-credit agreement with a bank, which expired November 2014 and was not renewed, the Company was able to borrow up to $1,000,000, limited to 70% of eligible accounts receivable, 50% of the book value of eligible inventory (inventory is limited to 50% of eligible accounts receivable). The interest rate at December 31, 2013 was 5.75%. The agreement was secured by substantially all of the Company’s accounts receivable, inventories, and equipment. The agreement and other long-term debt with the same bank contain certain restrictive covenants common to these types of agreements. At December 31, 2013, the full line was available to be drawn on.

Construction Lines-of-Credit—Under terms of two construction line-of-credit agreements with a bank, the Company was able to borrow up to $2.5 million in relation to construction of a new building and $2.2 million for costs associated with the addition of new equipment. The interest rate for both lines-of-credit at December 31, 2013 was 4.5%. Payments of interest only were required on the outstanding balances until the asset completion dates.

7. REVOLVING LINES-OF-CREDIT AND LONG-TERM DEBT (CONTINUED)

During 2014, the construction line-of-credit of $2.5 million in relation to the construction of a new building was completed and the Company converted the construction line of credit to long-term debt, outlined below. Additional costs in excess of the original $2.2 million on the new equipment were incurred in 2014 and a new construction line of credit, subject to the same terms noted above, was created for an additional $214,000. The total amount drawn on the equipment lines as of December 31, 2014 was $2,413,779.

Subsequent to year end, the Company converted the construction lines-of-credit related to the equipment to a note payable to a bank; due in monthly payment of $33,680 including interest at 4.50% through maturity in February of 2020. The loan is collateralized by equipment.

Long-term debt at December 31, 2014 and 2013 consists of the following:

	2014	2013
Subordinated notes payable to a stockholder of the Company; interest at the greater of 13.5% or a floating rate equal to the LIBOR plus 9.5% (the rate was 13.5% at December 31, 2014); due in full in August 2017. The loan is collateralized by substantially all assets of the Company. The note is subordinated to the revolving credit agreement, construction lines-of-credit and term loans disclosed above. Under the terms of the subordinated note payable agreement, the Company is subject to certain restrictions, which include, but are not limited to, making equity distributions; limitations on indebtedness, capital expenditures, management fees and leases; and restrictions on investments. The Company is also required to comply with certain financial covenants; including minimum EBITDA levels and a fixed charge coverage ratio. The subordinated note payable agreement contains a prepayment premium clause that requires the Company to pay a premium for prepayments on or prior to the maturity date. The dates and percentages related to this clause are 3% of principal prepaid in year one, 2% in year two, and 1% in year three from the anniversary of August 2010. The note also contains a clause that, as permitted under the subordination agreement, requires the Company to prepay the outstanding amount based on excess cash flow, as defined in the agreement. The note also provides for an exit fee of $1,939,532 plus 8.6% per annum of the greater of the outstanding principal balance or $11,640,000, payable upon any charge of control that occurs prior to the payoff of the amounts due under the note.	$15,520,000	$15,520,000
Note payable to a bank, converted from a construction line-of-credit; due in monthly payments of $26,005 including interest at 4.50% through maturity in October of 2019. The loan is collateralized by a building.	2,468,562	—

7. REVOLVING LINES-OF-CREDIT AND LONG-TERM DEBT (CONTINUED)

	2014	2013
Note payable to a bank; due in monthly payments of $28,017 including interest at 4.50% through maturity in December of 2018. The loan is collateralized by equipment, accounts receivable, and inventory.	$ 1,227,097	$ 1,501,030
Note payable to a bank; due in monthly payments of $38,681 including interest at 5.95% through maturity in April of 2017. The loan is collateralized by equipment, accounts receivable, and inventory.	1,007,968	1,398,653
Note payable to a bank; due in monthly payments of $16,164 including interest at 5.95% through September 2016 and prime plus 2% thereafter, through maturity in September 2018. The loan is collateralized by equipment, accounts receivable, and inventory.	649,516	799,519
Note payable to a bank; due in monthly payments of $9,448 including interest at 4.50% through maturity in September of 2018. The loan is collateralized by equipment, accounts receivable, and inventory.	389,969	483,019
Financed vehicle payable to dealer; due in monthly payments of $1,159 including interest at 6.35%. The loan was collateralized by the vehicle and paid in full during 2014.	—	50,868
	21,263,112	19,753,089
Less current maturities	1,163,485	920,754
	$20,099,627	$18,832,335

Annual maturities of long-term debt at December 31, 2014, are as follows:

Year ending December 31,	
2015	$ 1,163,485
2016	1,225,527
2017	16,495,367
2018	783,246
2019	1,595,487
	$21,263,112

8. INCOME TAX

Deferred Income Taxes—Net deferred tax assets (liabilities) consist of the following at December 31, 2014 and 2013:

	2014	2013
Deferred tax assets:		
Accounts receivable	$ 4,000	$ 4,000
Accrued expenses	86,000	90,000
State net operating loss and credit carryforwards (expires starting 2021)	414,000	41,000
Federal net operating loss carryforward (expires 2034)	1,714,000	—
Deferred tax assets	2,218,000	135,000
Deferred tax liabilities:		
Property, plant and equipment	(2,442,000)	(1,723,000)
Customer list	(333,000)	(625,000)
Deferred tax liabilities	(2,775,000)	(2,348,000)
Net deferred tax liabilities	$ (557,000)	$(2,213,000)

Deferred tax assets and (liabilities) are classified on the balance sheet as follows:

	2014	2013
Short-term asset	$ 1,210,000	$ 135,000
Long-term liability	(1,767,000)	(2,348,000)
Net deferred tax liabilities	$ (557,000)	$(2,213,000)

Income Tax Expense (Benefit)—Income tax expense (benefit) for the years ended December 31, 2014 and 2013 is comprised of the following:

	2014	2013
Current	$ (4,905)	$462,000
Deferred	(1,656,000)	112,000
Total	$(1,660,905)	$574,000

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income from operations because of state taxes, nondeductible expenses, and tax credits.

9. EMPLOYEE BENEFIT PLAN

The Company has a defined contribution plan covering all employees meeting the eligibility requirements of the plan. The Company contributes a discretionary percentage of employee contributions as determined annually by the Board of Directors. Retirement plan matching expense for the years ended December 31, 2014 and 2013 was $121,550 and $121,290, respectively.

10. OPERATING LEASES

The Company leases equipment under operating leases expiring in the years 2015 through 2018. Total rent expense under all operating leases amounted to $313,681 and $290,683 for the years ended December 31, 2014 and 2013, respectively.

The following is a schedule of future minimum rental payments required under the operating leases as of December 31, 2014:

Year Ending December 31,	
2015	$269,294
2016	212,642
2017	134,924
2018	26,506
	$643,366

11. COMMON AND PREFERRED STOCK

Common stock consists of Class A, B and C shares. Class A and B shares are voting. Class C shares are non-voting. Upon a triggering event, such as a letter of intent to sell the Company, failure to meet certain EBITDA levels, or a default under the loan agreements, the Class B shares may become Class A shares at the option of the holder. Upon corporate liquidation or dissolution, after preferred shareholders receive their liquidation value, the remaining proceeds are divided between Class A and B shares, except that the proceeds allocated to Class B shares are allocated in part to Class C shares based on certain internal rates of return earned by one of the principal stockholders on his preferred and common stock investment in the Company.

Preferred stock consists of series A, B, C, and D shares carried at the original issue price of $1 per share for Series A and B, $3.50 for Series C and $12.30 for Series D. All shares are designated as nonvoting. However, a majority of Series A, C and D shareholders must approve certain corporate matters of significance, including amendments to the Articles of Incorporation, share issuances or redemptions, asset or stock sales or mergers, hiring of a Chief Executive Officer and change in number of board members. Dividends on the shares are payable when and if declared by the board. Dividends compound annually and are cumulative. Dividend rates are 15% on Series A shares, 6% on Series B, 15% on Series C and 6% on Series D (prior to February 28, 2013 the dividend rate was 17.5% on Series D). Series D shares have first priority in liquidation or dissolution, receiving their original issuance

11. COMMON AND PREFERRED STOCK (CONTINUED)

price plus unpaid dividends. Series C shares have second priority receiving 1.5 times their original issuance price plus unpaid dividends; followed by Series A shares and lastly Series B shares, both of which receive their original issue price plus unpaid dividends. Dividend payments receive the same priority with Series C dividends payable only if Series D accumulated dividends have been paid, Series A after Series C dividends are paid and Series B after Series A dividends are paid.

All shares may be redeemed at the holder's option after six years from the date of issuance. The redemption dates are August 2014 for Series A and B shares and August 2016 for Series C or D shares, or after satisfaction of all amounts due under loans extended to the Company by the holders (see Note 7). Redemption is mandatory in the case of a qualified public offering of the Company's common stock.

The agreement between the stockholders also provides for various rights of electing the members of the Company's Board of Directors and requires consents as to the sale of the Company.

In connection with the acquisition discussed in Note 2, the Company issued warrants to an outside entity for investment banker services to allow the entity to purchase 5,389 Class A common shares for $1 per share. No value was ascribed to the warrants. The warrants expire in August 2020.

During 2013, $8.2 million of preferred D stock was redeemed and a dividend of $4.1 million was paid on these shares through conversion into debt for the Company.

12. MAJOR CUSTOMERS

Sales to major customers and accounts receivable balances for the years ended December 31, 2014 and 2013 are as follows:

	2014		2013	
	Percent of Revenues	Percent of Accounts Receivable at December 31	Percent of Revenues	Percent of Accounts Receivable at December 31
Customer A	10%	28%	3%	5%
Customer B	4%	13%	11%	10%
Customer C	17%	3%	10%	20%

13. RELATED PARTIES

The Company pays a management services fee to a stockholder. In August 2010 an agreement deferring payment until 2017 of the fee was entered into with the stockholder. The fee continues to accrue. Total expense for the years ended December 31, 2014 and 2013 was $225,000. Included in accrued expenses at December 31, 2014 and 2013 are fees of $1,008,750 and $783,750, respectively, that remain payable.

As discussed in Note 7, the Company has a line-of-credit and debt agreement with the same stockholder. Interest expense for the years ended December 31, 2014 and 2013 was $1,994,329 and $1,856,775, respectively.

Exhibit 99.4

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

AND

INDEPENDENT AUDITORS' REPORT

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

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<u>INDEPENDENT AUDITORS' REPORT</u>

To the Board of Directors
Galaxy Tool Holding Corporation
Winfield, KS

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Galaxy Tool Holding Corporation and its Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Galaxy Tool Holding Corporation and its Subsidiaries as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Galaxy Tool Holding Corporation and Subsidiaries, as of and for the year ended December 31, 2011, were audited by other auditors whose report, dated April 13, 2012, expressed an unmodified opinion on those statements.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

April 5, 2013
Wichita, KS

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 473,656**	$ 363,206
Accounts receivable less allowance for doubtful accounts of $10,000 and $30,000	**5,523,041**	3,651,042
Inventories	**2,813,369**	942,861
Prepaid expenses	**74,048**	67,800
Deferred income taxes	**126,000**	899,100
Total current assets	**9,010,114**	5,924,009
PROPERTY, PLANT AND EQUIPMENT		
Land	**9,000**	9,000
Buildings and improvements	**3,071,919**	2,868,034
Machinery and equipment	**6,919,387**	6,880,095
Computer hardware and software	**422,852**	544,756
Office furniture and fixtures	**57,682**	92,751
Equipment installations in progress	—	175,814
	10,480,840	10,570,450
Less accumulated depreciation	**3,250,913**	2,919,319
Net property and equipment	**7,229,927**	7,651,131
OTHER ASSETS		
Goodwill	**8,679,091**	8,679,091
Customer list, net	**2,293,786**	3,024,037
Deferred debt issuance costs, net of accumulated amortization of $373,424 and $355,771	**21,576**	39,229
	10,994,453	11,742,357
	$27,234,494	$ 25,317,497

	2012	2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Revolving credit agreement	**$ —**	$ 1,110,707
Current maturities of long-term debt	**3,730,181**	133,737
Accounts payable	**1,800,948**	1,088,899
Accrued expenses	**1,708,303**	822,814
Deferred revenue	**363,130**	95,563
Income taxes payable	**240,000**	—
Total current liabilities	**7,842,562**	3,251,720
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	**2,179,904**	6,158,887
Deferred income taxes	**2,227,000**	2,303,100
Total liabilities	**12,249,466**	11,713,707
STOCKHOLDERS' EQUITY		
Preferred stock, Series A, par value $.01 per share; 5,000,000 shares authorized and 4,111,907 shares issued and outstanding, total liquidation preference of outstanding shares of $7,324,224; net of offering costs of $83,200	**4,028,707**	4,028,707
Preferred stock, Series B, par value $.01 per share; 5,000,000 shares authorized and 4,438,093 shares issued and outstanding, total liquidation preference of outstanding shares of $5,620,679; net of offering costs of $300,000	**4,138,093**	4,138,093
Preferred stock, Series C, par value $.01 per share; 1,000,000 shares authorized and 927,480 shares issued and outstanding, total liquidation preference of outstanding shares of $6,424,032	**3,246,178**	3,246,178
Preferred stock, Series D, par value $.01 per share; 1,000,000 shares authorized and 1,000,000 shares issued and outstanding, total liquidation preference of outstanding shares of $17,291,908	**12,300,000**	12,300,000
Common stock, Class A, par value $.01 per share; 200,000 shares authorized and 92,657 share issued and outstanding	**927**	927
Common stock, Class B, par value $.01 per share; 50,000 shares authorized and 48,093 share issued and outstanding	**481**	481
Common stock, Class C, par value $.01 per share; 1,000 shares authorized and 1,000 share issued and outstanding; issued for no consideration	**—**	—
Additional paid-in capital	**99,000**	99,000
Retained earnings (deficit)	**(1,776,880)**	(3,158,118)
Excess of consideration paid over consideration contributed by continuing stockholder interests	**(7,051,478)**	(7,051,478)
Total stockholders' equity	**14,985,028**	13,603,790
	$27,234,494	$25,317,497

The accompanying notes are an integral part
of these consolidated financial statements.

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2012 and 2011

	2012	2011
Net Sales	**$26,178,800**	$21,127,383
Cost of goods sold	**18,872,154**	18,363,948
Gross profit	**7,306,646**	2,763,435
General and administrative expenses	**4,295,610**	3,326,950
Operating profit (loss)	**3,011,036**	(563,515)
Interest expense	**692,798**	787,785
Income (loss) before income taxes	**2,318,238**	(1,351,300)
Income tax expense (benefit)	**937,000**	(478,730)
Net income (loss)	**$ 1,381,238**	$ (872,570)

The accompanying notes are an integral part
of these consolidated financial statements.

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2012 and 2011

	Preferred Stock				Common Stock				Excess of Consideration Paid Over Consideration Contributed by Continuing Stockholder Interests	
	Series A	Series B	Series C	Series D	Class A	Class B	Additional Paid In Capital	Retained Earnings (Deficit)		Total
Balance, December 31, 2010	$4,028,707	$4,138,093	$3,246,178	$12,300,000	$ 927	$ 481	$ 99,000	$(2,285,548)	$ (7,051,478)	$14,476,360
Net (loss)	—	—	—	—	—	—	—	(872,570)	—	(872,570)
Balance, December 31, 2011	4,028,707	4,138,093	3,246,178	12,300,000	927	481	99,000	(3,158,118)	(7,051,478)	13,603,790
Net income	—	—	—	—	—	—	—	**1,381,238**	—	**1,381,238**
Balance, December 31, 2012	**$4,028,707**	**$4,138,093**	**$3,246,178**	**$12,300,000**	**$ 927**	**$ 481**	**$ 99,000**	**$(1,776,880)**	**$ (7,051,478)**	**$14,985,028**

The accompanying notes are an integral part
of these consolidated financial statements.

GALAXY TOOL HOLDING CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Net income (loss)	**$ 1,381,238**	$ (872,570)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	**1,143,039**	983,553
Amortization	**747,904**	753,789
Deferred income tax expense (benefit)	**697,000**	(367,000)
Loss on sale of equipment	**11,174**	—
Change in operating assets and liabilities:		
Accounts receivable	**(1,871,999)**	(107,231)
Prepaid expenses	**(6,248)**	(34,079)
Inventories	**(1,870,508)**	1,298,283
Income taxes	**240,000**	8,201
Accounts payable and accrued expenses	**1,597,538**	85,820
Deferred revenue	**267,567**	(435,647)
Net cash from operating activities	**2,336,705**	1,313,119
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(736,009)**	(2,300,050)
Proceeds from sale of property, plant and equipment	**3,000**	—
Net cash from investing activities	**(733,009)**	(2,300,050)
Cash flows from financing activities:		
Net (payments) borrowings on revolving credit agreement	**(1,110,707)**	110,707
Borrowings on long-term debt	**—**	1,104,836
Principal payments on long-term debt	**(382,539)**	(32,212)
Net cash from financing activities	**(1,493,246)**	1,183,331
Change in cash	**110,450**	196,400
Cash at beginning of year	**363,206**	166,806
Cash at end of year	**$ 473,656**	$ 363,206
Supplemental disclosure of cash flow information:		
Interest paid	**$ 683,776**	$ 845,291
Income taxes	**$ —**	$ (119,931)

The accompanying notes are an integral part
of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Operations - Galaxy Tool Holding Corporation and Subsidiaries (d/b/a Galaxy Technologies) is in the business of manufacturing and designing precision tools and parts, fabricating steel and aluminum assemblies, and producing secondary equipment for the customers in the aerospace industry. Additionally, the company serves customers in the plastic products industry with manufacturing and repairing injection and blow molds and designing component parts and secondary equipment. The Company's customers are located throughout the United States and internationally. The Company is headquartered in Winfield, Kansas, where it has a manufacturing facility.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Galaxy Tool Holding Corporation and its wholly-owned subsidiaries, Galaxy Technologies, Inc. and Encompass Tool & Machine, Inc., hereinafter collectively referred to as the "the Company." During 2011, Encompass was formally dissolved and its operations were transferred to Galaxy Technologies. All material intercompany related party balances and transactions have been eliminated in the consolidation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities, (2) disclosures such as contingencies, and (3) the reported amounts of revenues and expenses included in such financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of reporting the statements of cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less, to be cash equivalents. The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Accounts Receivable, Trade - Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 to 60 days, depending on the customer. Interest is not charged on past due accounts.

Inventories - Inventories are stated at the lower of cost or market, with cost determined by the first-in, first-out (FIFO) method. Work-in-process includes material, labor, and allocable factory overhead costs.

Property, Plant and Equipment - Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method, using estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

1. BUSINESS OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Customer list - The Company is amortizing its customer list, using a straight-line method, over a 7 ½ year period.

Goodwill - Goodwill is not amortized, but is subject to an annual impairment test, as well as when an event triggering impairment may have occurred. The Company has elected to perform its annual analysis during the fourth quarter. No indicators of impairment were identified for the years ended December 31, 2012 and 2011.

Deferred debt issuance costs - Deferred debt issuance costs are being amortized over the life of the related loan by the effective interest method.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimate future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment losses recognized in 2012 or 2011.

Deferred revenue - Deferred revenue represents deposits and progress billings on jobs in progress.

Income Taxes - Deferred tax assets and liabilities are recognized for temporary differences and loss carryforwards. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes the financial statement effects of a tax position only when it believes it can more likely than not sustain the position upon an examination by the relevant tax authority. Tax years that remain subject to examination in the Company's major tax jurisdictions (Federal and State of Kansas) are 2009, 2010, 2011 and 2012.

Revenue Recognition - Revenue is recognized upon shipment of goods. Shipping and handling charges are included in revenue. Shipping and handling costs are included in cost of goods sold.

Advertising Costs - The Company expenses costs of advertising as they are incurred. Advertising expense for the years ended December 31, 2012 and 2011 was $39,493 and $63,165, respectively.

Subsequent Events - Subsequent events have been evaluated through April 5, 2013, which is the date the financial statements were available to be issued.

2. BUSINESS ACQUISITION

On August 22, 2008, the Company acquired 100% of the stock of Galaxy Tool Corporation and its subsidiary, Encompass Tool & Machine, Inc., under the terms of a stock purchase agreement. The stock purchase transaction was accounted for in accordance with EITF Issue No. 88-16, *Basis in Leveraged Buyout Transactions*, and EITF Issue No. 90-12, *Allocating Basis in Individual Assets and Liabilities for Transactions Within the Scope of EITF Issue No. 88-16* The aggregate purchase price was allocated to the assets and liabilities of the Company based upon an allocation of their respective carryover and fair market values. The carryover interest on the transaction was 38.6%. The portion of the acquisition recognized at fair value was 61.4%. The caption "consideration paid over consideration contributed by continuing stockholder interests" within the equity section of the accompanying balance sheets represents the difference between the fair value and the carrying value of the 38.6% carryover interest.

3. INVENTORIES

Inventories consist of the following at December 31:

	2012	2011
Raw Materials	$ 392,565	$185,066
Work-in-process parts and labor	2,420,804	757,795
	$2,813,369	$942,861

4. DEPRECIATION

Depreciation expense for the years ended December 31, 2012 and 2011, based on useful lives shown below, consists of:

	2012	2011	Useful Lives
Building and improvements	$ 96,704	$ 75,749	40 years
Machinery and equipment	968,569	849,158	5 to 10 years
Computer hardware and software	72,528	54,517	3 to 5 years
Office furniture and equipment	5,238	4,129	5 to 10 years
	$1,143,039	$983,553	

5. INTANGIBLE ASSETS

The net values for intangible assets at December 31, 2012 and 2011 were as follows:

	2012			2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Customer list	$5,476,880	$(3,183,094)	$2,293,786	$5,476,880	$(2,452,843)	$3,024,037

Goodwill of $8,679,091 was recognized with the acquisition as described in Note 2 and there were no changes in its carrying amount for the years ended December 31, 2012 and 2011.

Amortization expense of the customer list for the years ended December 31, 2012 and 2011 was $730,251. Estimated amortization expense for each of the following four years is:

2013	$ 730,251
2014	730,251
2015	730,251
2016	103,033
	$2,293,786

6. REVOLVING LINE-OF-CREDIT AND LONG-TERM DEBT

Revolving Line-of-Credit - Under terms of the revolving line-of-credit agreement with a bank, which expires October 2013, the Company may borrow up to $1,500,000, limited to 70% of eligible accounts receivable, 50% of the book value of eligible inventory (inventory is limited to 50% of eligible accounts receivable). The interest rate at December 31, 2012 was 5.75%. The agreement is secured by substantially all of the Company's accounts receivable, inventories, and equipment. The agreement also contains certain restrictive covenants common to this type of agreement. Outstanding borrowings at December 31, 2012 and 2011 were $0 and $1,110,707, respectively. As of December 31, 2012, the full line is available to be drawn on.

6. REVOLVING LINE-OF-CREDIT AND LONG-TERM DEBT (CONTINUED)

Long-term debt at December 31, 2012 and 2011 consists of the following:

	2012	2011
Subordinated notes payable to a stockholder of the Company; interest at the greater of 13.5% or a floating rate equal to the LIBOR plus 9.5% (the rate was 13.5% at December 31, 2012); due in full in August 2013. The loan is collateralized by substantially all assets of the Company. The note is subordinated to the revolving credit agreement and term loan disclosed below. Under the terms of the subordinated note payable agreement, the Company is subject to certain restrictions, which include, but are not limited to, making equity distributions; limitations on indebtedness, capital expenditures, management fees and leases; and restrictions on investments. The Company is also required to comply with certain financial covenants; including minimum EBITDA levels and a fixed charge coverage ratio. The subordinated note payable agreement contains a prepayment premium clause that requires the Company to pay a premium for prepayments on or prior to the maturity date. The dates and percentages related to this clause are 3% of principal prepaid in year one, 2% in year two, and 1% in year three from the anniversary date in August 2010. The note also contains a clause that, as permitted under the subordination agreement, requires the Company to prepay the outstanding amount based on excess cash flow, as defined in the agreement. The note also provides for an exit fee of $1,421,853 plus 4% per annum of the greater of the outstanding principal balance or $4,437,000, payable upon any charge of control that occurs prior to the payoff of the amounts due under the note. See Note 13 for subsequent event.	$3,220,000	$5,220,000
Note payable to a bank; due in monthly payments of $38,681 including interest at 5.95% through maturity in April of 2017. The loan is collateralized by equipment, accounts receivable, and inventory.	1,765,798	—
Note payable to a bank; due in monthly payments of $16,164 including interest at 5.95% through September 2016 and prime plus 2% thereafter, through maturity in September 2018. The loan is collateralized by equipment, accounts receivable, and inventory.	924,287	1,072,624
	5,910,085	6,292,624
Less current maturities	3,730,181	133,737
	$2,179,904	$6,158,887

6. REVOLVING LINE-OF-CREDIT AND LONG-TERM DEBT (CONTINUED)

Annual maturities of long-term debt at December 31, 2012, are as follows:

Year ending December 31,	
2013	$3,730,181
2014	541,379
2015	574,484
2016	611,957
2017	338,516
Thereafter	113,568
	$5,910,085

The above maturities do not include the changes in the term debt as described in Note 13.

7. INCOME TAX

Deferred Income Taxes - Net deferred tax assets (liabilities) consist of the following at December 31, 2012 and 2011:

	2012	2011
Deferred tax assets:		
Accounts receivable	$ 4,000	$ 12,000
Accrued expenses	101,000	71,700
Contributions	—	3,400
State net operating loss carryforwards (expires 2021)	21,000	812,000
Current deferred tax assets	126,000	899,100
Deferred tax liabilities:		
Property, plant and equipment	(1,309,000)	(1,093,500)
Customer list	(918,000)	(1,209,600)
Non-current deferred tax liabilities	(2,227,000)	(2,303,100)
Net deferred tax assets (liabilities)	$(2,101,000)	$(1,404,000)

Income Tax Expense - Income tax expense (benefit) for the years ended December 31, 2012 and 2011 is comprised of the following:

	2012	2011
Current	$240,000	$(111,730)
Deferred	697,000	(367,000)
Total	$937,000	$(478,730)

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income from operations because of state taxes, nondeductible expenses, and tax credits.

8. EMPLOYEE BENEFIT PLAN

The Company has a defined contribution plan covering all employees meeting the eligibility requirements of the plan. The Company contributes a discretionary percentage of employee contributions as determined annually by the Board of Directors. Retirement plan matching expense for the years ended December 31, 2012 and 2011 was $97,514 and $88,202, respectively.

9. OPERATING LEASES

The Company leases equipment under operating leases expiring in the years 2013 through 2017. Total rent expense under all operating leases amounted to $168,197 and $181,549 for the years ended December 31, 2012 and 2011, respectively.

The following is a schedule of future minimum rental payments required under the operating leases as of December 31, 2012:

Year Ending December 31,	
2013	$163,506
2014	107,476
2015	53,477
2016	19,751
2017	3,034
	$347,244

10. COMMON AND PREFERRED STOCK

Common stock consists of Class A, B and C shares. Class A and B shares are voting. Class C shares are non-voting. Upon a triggering event, such as a letter of intent to sell the Company, failure to meet certain EBITDA levels, or a default under the loan agreements, the Class B shares may become Class A shares at the option of the holder. Upon corporate liquidation or dissolution, after preferred shareholders receive their liquidation value, the remaining proceeds are divided between Class A and B shares, except that the proceeds allocated to Class B shares are allocated in part to Class C shares based on certain internal rates of return earned by one of the principal stockholders on his preferred and common stock investment in the Company.

Preferred stock consists of series A, B, C, and D shares carried at the original issue price of $1 per share for Series A and B, $3.50 for Series C and $12.30 for Series D. All shares are designated as nonvoting. However, a majority of Series A, C and D shareholders must approve certain corporate matters of significance, including amendments to the Articles of Incorporation, share issuances or redemptions, asset or stock sales or mergers, hiring of a Chief Executive Officer and change in number of board members. Dividends on the shares are payable when and if declared by the board. Dividends compound annually and are cumulative. Dividend rates are 15% on Series A shares, 6% on Series B, 15% on Series C and 17.5% on Series D. Series D shares have first priority in liquidation or dissolution, receiving their original issuance price plus unpaid dividends. Series C shares have second

10. COMMON AND PREFERRED STOCK (CONTINUED)

priority receiving 1.5 times their original issuance price plus unpaid dividends; followed by Series A shares and lastly Series B shares, both of which receive their original issue price plus unpaid dividends. Dividend payments receive the same priority with Series C dividends payable only if Series D accumulated dividends have been paid, Series A after Series C dividends are paid and Series B after Series A dividends are paid.

All shares may be redeemed at the holder's option after six years from the date of issuance, which will be August 2014 for Series A and B shares and August 2016 for Series C or D shares, or after satisfaction of all amounts due under loans extended to the Company by the holders (see Note 6). Redemption is mandatory in the case of a qualified public offering of the Company's common stock.

The agreement between the stockholders also provides for various rights of electing the members of the Company's Board of Directors and requires consents as to the sale of the Company.

In connection with the acquisition discussed in Note 2, the Company issued warrants to purchase 5,389 Class A common shares for $1 per share to an outside entity for investment banker services. No value was ascribed to the warrants. The warrants expire in August 2020.

As described in Note 13, $8.2 million of preferred D stock was redeemed subsequent to December 31, 2012.

11. MAJOR CUSTOMERS

Sales to major customers for the years ended December 31, 2012 and 2011 are as follows:

	2012		2011	
	Percent of Revenues	Percent of Accounts Receivable at December 31	Percent of Revenues	Percent of Accounts Receivable at December 31
Customer A	7%	7%	15%	58%
Customer B	11%	10%	9%	4%

12. RELATED PARTIES

The Company pays a management services fee to a stockholder. In August 2010 an agreement deferring payment of the fee was entered into with the stockholder. The fee continues to accrue. Total expense for the year ended December 31, 2012 and 2011 was $225,000. Included in accrued expenses at December 31, 2012 and 2011 are fees of $558,750 and $333,750, respectively, that remain payable.

12. RELATED PARTIES (CONTINUED)

As discussed in Note 6, the Company has a debt agreement with a stockholder. Interest expense for the year ended December 31, 2012 and 2011 was $527,044 and $704,700, respectively.

13. SUBSEQUENT EVENT

On February 28, 2013, the Company obtained $12.3 million in additional borrowing from a stockholder increasing the term loan described in Note 6 to $15.52 million. The proceeds were used to redeem $8.2 million of preferred D stock and to pay a $4.1 million dividend on that preferred stock. The exit fee on the term loan increased from 4% to 8.6% and the maturity date was extended to August 2017. The preferred D stock dividend rate was reduced from 17.5% to 6%.

Exhibit 99.5

Financial Statements for

SOG Specialty Knives and Tools, LLC

December 31, 2014 and 2013

(unaudited)

CONTENTS

SOG SPECIALTY KNIVES AND TOOLS, LLC
BALANCE SHEETS
(unaudited)

	December 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash	$ 75,446	$ 158,490
Trade accounts receivable, net of allowance of $68,693 and $71,637, respectively	3,919,450	4,159,332
Inventories, net	8,686,077	9,625,225
Prepaid expenses and other current assets	757,722	562,817
Total current assets	13,438,695	14,505,864
PROPERTY AND EQUIPMENT, net	950,958	760,258
OTHER ASSETS		
Deferred financing costs, net	207,435	336,523
Intangible assets, net	14,561,521	15,815,560
Goodwill	10,984,431	10,984,431
Other assets	61,375	78,534
	25,814,762	27,215,048
	$ 40,204,415	$ 42,481,170
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Line of credit	$ 3,693,222	$ 4,474,106
Checks in excess of cash	236,817	—
Trade accounts payable	1,107,395	2,088,060
Accrued expenses	1,379,935	2,344,983
Current portion of capital lease obligation	13,694	14,939
Total current liabilities	6,431,063	8,922,088
LONG-TERM LIABILITIES		
Notes payable to related party	18,399,000	18,399,000
Capital lease obligations, net of current portion	—	13,694
MEMBER'S EQUITY	15,374,352	15,146,388
	$ 40,204,415	$ 42,481,170

See accompanying notes.

SOG SPECIALTY KNIVES AND TOOLS, LLC
STATEMENTS OF INCOME
(unaudited)

	Years Ended December 31,	
	2014	2013
NET SALES	$39,638,830	$36,946,378
COST OF GOODS SOLD	23,849,031	21,693,911
Gross profit	15,789,799	15,252,467
OPERATING EXPENSES		
Selling and marketing	5,769,606	5,371,886
General and administrative	6,386,565	6,191,690
Total operating expenses	12,156,171	11,563,576
INCOME FROM OPERATIONS	3,633,628	3,688,891
OTHER EXPENSE		
Interest expense	3,498,921	3,456,252
NET INCOME	$ 134,707	$ 232,639

See accompanying notes.

SOG SPECIALTY KNIVES AND TOOLS, LLC
STATEMENTS OF MEMBER'S EQUITY
(unaudited)

BALANCE, December 31, 2012	$ 14,763,267
Vesting of profit interest grants	250,482
Repurchase of member units	(100,000)
Net income	232,639
BALANCE, December 31, 2013	15,146,388
Vesting of profit interest grants	140,640
Distributions	(47,383)
Net income	134,707
BALANCE, December 31, 2014	$ 15,374,352

See accompanying notes.

SOG SPECIALTY KNIVES AND TOOLS, LLC
STATEMENTS OF CASH FLOWS
(unaudited)

	Years Ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 134,707	$ 232,639
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	1,636,190	1,573,246
Profit interest compensation expense	140,640	250,482
Amortization of deferred financing costs	129,088	128,171
Changes in current assets and liabilities		
Trade accounts receivable	239,882	(194,362)
Inventories	939,148	(2,632,560)
Prepaid expenses and other assets	(177,746)	(79,762)
Trade accounts payable	(980,665)	1,237,169
Accrued expenses	(965,048)	1,225,792
Net cash from operating activities	1,096,196	1,740,815
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(572,851)	(364,679)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on line of credit	(780,884)	(1,130,029)
Checks in excess of cash	236,817	—
Capital lease payments	(14,939)	(14,573)
Repurchase of member units	—	(100,000)
Distribution to members	(47,383)	—
Net cash from financing activities	(606,389)	(1,244,602)
NET INCREASE (DECREASE) IN CASH	(83,044)	131,534
CASH, beginning of year	158,490	26,956
CASH, end of year	$ 75,446	$ 158,490
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$3,872,419	$ 2,817,527

See accompanying notes.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - SOG Specialty Knives and Tools, LLC (the Company) is a Delaware limited liability company and is a wholly owned subsidiary of SOG Specialty K&T Holdings, LLC (Holdings). The Company is in the business of designing, manufacturing, packaging, and distributing knives and specialty tools through a worldwide dealer network.

Basis of accounting - The Company prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates - Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses in the reporting period. Actual amounts could differ from those estimates. Significant estimates include bad debt and return allowances, lives for tangible and definite-lived intangible assets, inventory valuations and reserves, and earnout contingencies.

Trade accounts receivable - Sales are made to approved customers on an open-account basis. Receivables are generally unsecured. The Company monitors credit limits and payment habits of its customers to mitigate risk of loss from uncollectible accounts.

Trade accounts receivable are stated at the original invoice amount. Management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to pay through a charge to earnings and a credit to the allowance based on their assessment of the current status of individual accounts and the overall aging of the receivables. Trade accounts receivable are written off when deemed uncollectible and recoveries of trade accounts receivable previously written off are recorded as a reduction of bad debt expense when received. The Company has established credit policies and historically the losses related to customer nonpayment have been low as a percentage of sales.

The Company entered into a receivables factoring agreement with a bank (purchaser) whereby all of a major customer’s receivables are submitted and sold to the purchaser upon product shipment. The receivables are sold without recourse at a discount reflecting LIBOR (LIBOR term varies depending on underlying receivable discount term) plus a spread (1.25%). At December 31, 2014, the one-month LIBOR was .1635%. The purchaser receives all cash collections. The spreads are evaluated periodically by the purchaser. The factoring arrangement typically accelerates collection of accounts receivable by 50 to 55 days from the customer’s payment due date according to the terms of sale. Total discounts were not significant for the years ended December 31, 2014 and 2013. The discounts are included in net sales on the statements of income.

Concentration of business and credit risk - The Company is subject to concentrations of credit risk through its cash and trade accounts receivable. Credit risk, with respect to trade accounts receivable, is minimized due to the diversification of the Company’s customer base and its geographical dispersion. The concentration of credit risk is equal to the outstanding trade accounts receivable balances, and such risk is subject to the financial and industry conditions of the Company’s customers. The Company does not require collateral or other securities to support trade accounts receivable. At times, cash balances in banks may be in excess of federally insured limits. The Company has not experienced any losses in its cash accounts.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

For the year ended December 31, 2014, revenue from two customers totaled 36% of revenue. For the year ended December 31, 2013, revenue from two customers totaled 31% of revenue. Accounts receivable for one customer at December 31, 2014 and 2013, was approximately 28% and 40%, respectively.

The Company purchases a significant quantity of product materials from suppliers outside the United States at prices that are determined by contract. All the purchases are denominated in U.S. dollars with the exception of one vendor for which the purchases are denominated in yen. Total purchases from this vendor were $1,304,000 and $839,000 for the years ended December 31, 2014 and 2013, respectively. Fluctuation of foreign currency exchange rates exposes the Company to changes in inventory costs and gross margins. For the years ended December 31, 2014 and 2013, purchases from three suppliers with facilities located in Asia totaled 37% and 32%, respectively, of inventory purchases. Management believes that other suppliers could provide the necessary products; however, such a change could result in manufacturing delays.

Inventories - Inventories are valued at the lower of cost or market, determined by the first-in, first-out method. The Company regularly analyzes its inventory for obsolescence and lower of cost or market adjustments. Inventory reserves are recorded for excess quantities, obsolescence, and adjustments to present inventory at the lower of cost or market. Reserves totaled $75,000 and $50,000 as of December 31, 2014 and 2013, respectively, and result in the inventory being recorded at its adjusted cost basis.

Property and equipment - Property and equipment are recorded at cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. The estimated useful lives of machinery, equipment, furniture, and fixtures are five years. Leasehold improvements are amortized over the lesser of the useful life of the asset or the remaining term of the lease. Expenditures that materially increase the lives of assets are capitalized. The cost and related accumulated depreciation or amortization of property sold or retired are removed from the accounts and resulting gains or losses are included in operations. Minor repairs and maintenance are charged to expense as incurred.

Deferred financing costs - The deferred financing costs were incurred in the process of executing the related party notes payable (Note 7). The financing costs are amortized to interest expense over the five-year term of the notes using the effective interest method. Amortization expense was $129,088 and $128,171 for the years ended December 31, 2014 and 2013, respectively.

Intangible assets - The Company's intangible assets consist of trade names, developed technology, customer relationships, and a noncompete agreement. Amounts are subject to amortization on the straight-line basis over their estimated useful lives. Management assesses the carrying value of intangible assets for potential impairment when an event occurs or circumstances change to suggest the carrying value of the assets may be greater than their fair value. Significant costs to renew or extend the term of certain intangible assets, primarily trademarks, will be capitalized and recognized over the renewal term. Management has determined there is no impairment at December 31, 2014 and 2013.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Goodwill - Goodwill represents the excess of the cost of the Company over the fair value of the net assets at the date of acquisition. The Company assesses qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company evaluated qualitative factors in performing its annual goodwill impairment test for 2014 and 2013 and concluded that goodwill was not impaired. Significant events and circumstances taken into consideration in arriving at this conclusion include the level of revenues and profitability since the Company was acquired.

Valuation of long-lived assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from use of the assets and their ultimate disposition. In circumstances where impairment is determined to exist, the Company will write down the assets to their estimated fair value based on either the present value of estimated expected future cash flows or the anticipated realizable market value.

Member’s equity - Holdings is the sole member of the Company. Managers appointed by Holdings manage the business and affairs of the Company. No member or manager shall be liable for the debts, obligations, or liabilities of the Company, solely by reason of being a member or acting as a manager. Holdings will receive all profits and losses, receive all distributions, and have all the voting rights of the Company. During 2014, the Company distributed $47,383 to Holdings. No distributions were made in 2013.

I**ncome taxes** - The Company is a limited liability company (LLC) (taxable as a partnership for U.S. tax purposes). Accordingly, taxable income or loss generated by its activities is reported on the tax returns of its members. Management evaluated the Company’s tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2011.

Revenue recognition - Revenue from the sale of the Company’s products is recognized at the time of transfer of title to the customer. Revenue is reduced by amounts relating to promotional rebates, volume rebates, cash discounts, and returns. These sales incentives and promotions totaled approximately $1,230,921 and $957,066 for the years ended December 31, 2014 and 2013, respectively. Revenue is presented net of applicable taxes.

Shipping and delivery - The Company incurs shipping and delivery costs in the delivery of products to its customers. These costs are included in cost of goods sold for the years ended December 31, 2014 and 2013.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Advertising costs - The Company expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2014 and 2013, was $648,750 and $607,554, respectively. Additionally, the Company offers advertising rebate programs with customers whereby if a customer advertises Company-related products and provides evidence of advertising, the Company provides certain incentives to the customer in the form of credits against future orders. The Company records the value of these credits in the year the advertising occurred and recognized total expense related to these programs of $1,616,748 and $1,572,904 for the years ended December 31, 2014 and 2013, respectively.

Management agreements - The Company entered into management agreements with each of the majority members of Holdings on August 5, 2011, which require the Company to pay quarterly management fees equal to amounts ranging from $125,000 to $150,000, depending on trailing 12-month EBITDA (earnings before interest, taxes, depreciation, and amortization). The agreement has a term of seven years, with an automatic one-year extension unless notice is given by the parties. Management fees for the years ended December 31, 2014 and 2013, were $500,000.

Product warranty - The Company's products are guaranteed against defects in workmanship and materials for the life of the original purchaser and requires the replacement or repair of the products that meet the warranty terms. The Company estimates and accrues the cost of its warranties monthly. Estimates are based on historic data and projected costs. All other warranty expenses are recognized in the period the replacement or repair occurs. The warranty costs and related warranty accrual as of and for the years ended December 31, 2014 and 2013, were not significant.

Subsequent events - Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

Note 2 - Inventories

Inventories consist of the following at December 31:

	2014	2013
Raw materials	$1,582,399	$2,114,788
Finished goods	6,896,822	6,548,141
Inventories in transit	281,856	1,012,296
Inventory reserves	(75,000)	(50,000)
Total inventories	$8,686,077	$9,625,225

Note 3 - Property and Equipment

Property and equipment consist of the following at December 31:

	2014	2013
Machinery and tooling	$ 1,448,677	$ 966,224
Computer equipment and software	334,347	298,055
Office equipment and other	214,813	160,706
Transportation equipment	8,237	8,238
	2,006,074	1,433,223
Less accumulated depreciation and amortization	(1,055,116)	(672,965)
Property and equipment, net	$ 950,958	$ 760,258

Depreciation and amortization expense on property and equipment for the years ended December 31, 2014 and 2013, was $382,151 and $319,207, respectively.

Note 4 - Intangible Assets

Customer relationships - Customer relationships represent the estimated fair value of customer relationships obtained in business combinations. The excess earnings method is considered by management to represent the fair value of customer relationships. The excess earnings look at projected discounted cash flows of the customer relationships, considering estimated attrition rates. Customer relationships are being amortized over 25 years.

Developed technology - Developed technology represents the estimated fair value of internally developed technology and designs incorporated in the products obtained in business combinations. The relief from royalty income method is considered by management to represent the fair value of the developed technology as it looks at the income streams that would result if the technology was licensed from a third party. Developed technology is being amortized over 10 years.

Trade name - Trade name represents the estimated fair value of exclusive rights to specified registered trademarks, trade names, and domain names obtained in business combinations. The relief from royalty income method and market information is considered by management to represent the fair value of these trademarks. Trade name is being amortized over 15 years.

Noncompete agreement - Noncompete agreement represents the estimated fair value of the noncompete agreement entered into during a business combination. The estimated discounted cash flows of potential lost revenues in the absence of the noncompete agreement were considered by management to represent the fair value of the agreement. The noncompete agreement is being amortized over 3.5 years.

Note 4 - Intangible Assets (continued)

Definite-lived intangibles consist of the following at December 31, 2014 and 2013:

	Weighted Average (Years)	Cost	Accumulated Amortization	Net Cost
December 31, 2014				
Customer relationships	25.0	$ 6,809,722	$ (926,879)	$ 5,882,843
Developed technology	10.0	5,358,482	(1,823,372)	3,535,110
Trade name	15.0	6,652,469	(1,509,125)	5,143,344
Noncompete agreement	3.5	8,064	(7,840)	224
		$18,828,737	$(4,267,216)	$14,561,521
December 31, 2013				
Customer relationships	25.0	$ 6,809,722	$ (654,490)	$ 6,155,232
Developed technology	10.0	5,358,482	(1,287,524)	4,070,958
Trade name	15.0	6,652,469	(1,065,627)	5,586,842
Noncompete agreement	3.5	8,064	(5,536)	2,528
		$18,828,737	$(3,013,177)	$15,815,560

Amortization expense totaled $1,254,039 for both years ended December 31, 2014 and 2013.

Future amortization of definite-lived intangibles is expected to be recognized over a weighted-average period of 12 years and is as follows for future years ending December 31 and thereafter:

2015	$ 1,251,959
2016	1,251,735
2017	1,251,735
2018	1,251,735
2019	1,251,735
Thereafter	8,302,622
	$14,561,521

Note 5 - Bank Line of Credit

At December 31, 2014, the Company had up to $10,000,000 available in a revolving credit line with a commercial bank. This is an increase of $2,500,000 in the available revolving credit line at December 31, 2013, of $7,500,000. The principal balance outstanding on the line of credit is limited to certain borrowing base requirements. The line of credit is subject to renewal on July 2, 2017. The terms of the credit agreement require interest to accrue at the Alternate Base Rate (3.25% at December 31, 2014 and 2013) plus 1% or the Eurodollar Rate (.1635% and .1672% at December 31, 2014 and 2013, respectively) plus 3%, and it is paid monthly. The Company elects the interest rate option at the time the advance is requested. The Alternate Base Rate is the higher of 1) the bank's base commercial lending rate, 2) the Federal Funds Open Rate plus one-half of 1%, or 3) the daily LIBOR rate plus 1%. The Eurodollar Rate is based on the one-month LIBOR rate. The line of credit is collateralized by essentially all assets of the Company. The loan is guaranteed by Holdings, which is a co-borrower on the loan. There was $3,693,222 and $4,474,106 outstanding under the line of credit as of December 31, 2014 and 2013, respectively, of which $193,222 was under the Alternate Base Rate and $3,500,000 was under the Eurodollar Rate as of December 31, 2014. The line-of-credit agreement contains certain financial covenants related to debt coverage and EBITDA (as defined in the agreement).

Note 6 - Capital Lease Obligations

The Company has two capital lease agreements for machinery and tooling related to the manufacture of the Company's products. Monthly payments under the capital leases total $1,427, including interest at an implicit rate of 3%. Assets under capital leases are included in property and equipment and were approximately $14,000 and $29,000, net of accumulated amortization, as of December 31, 2014 and 2013, respectively. These assets are amortized over their estimated useful lives.

Minimum payments under capital leases for the year ending December 31, 2015, are as follows:

Total minimum lease payments	$ 15,702
Less amount representing interest	2,008
Present value of capital lease payments	13,694
Less current portion	13,694
	$ —

Note 7 - Notes Payable to Related Party

The Company has two note agreements with a member of Holdings totaling $18,399,000, described as follows as of December 31:

	2014	2013
Term A note agreement with member of Holdings, maturing August 4, 2016; interest payable monthly commencing September 1, 2011, at a rate equal to the one-month LIBOR plus 11.25%, provided that in no event the interest be lower than 13.25%. On each interest payment date after December 31, 2012, and prior to maturity date, in lieu of payment of the interest in part or whole, payment-in-kind may be made by adding such amount to the principal amount of the note.	$ 6,199,500	$ 6,199,500
Term B note agreement with member of Holdings, maturing August 4, 2016; interest payable monthly commencing September 1, 2011, at a rate equal to the one-month LIBOR plus 12.75%, provided that in no event the interest be lower than 14.75%. On each interest payment date after December 31, 2012, and prior to maturity date, in lieu of payment of the interest in part or whole, payment-in-kind may be made by adding such amount to the principal amount of the note.	12,199,500	12,199,500
	$18,399,000	$18,399,000

The notes in the preceding table were both issued on August 5, 2011. The principal amounts on both notes totaling $18,399,000 are due in lump-sum payments on October 3, 2017. The note agreements stipulate that if the Company prepays any portion of the notes prior to the third anniversary of the notes, the Company would be required to pay a prepayment penalty equal to a percentage of the principal repaid. The prepayment percentages are 3% prior to the first anniversary, 2% after the first anniversary but before the second anniversary, and 1% after the second anniversary but before the third anniversary. No prepayments were made in 2014 or 2013. In addition, the note agreements stipulate upon change of control or prepayment of the amounts outstanding of Term A and Term B prior to the maturity date, the Company would pay to the member an exit fee in the amount equal to 3% per annum on the greater of the 1) Term A outstanding and $4,649,625 and 2) Term B outstanding and $9,149,625. The exit fee shall survive termination of the repayment of the obligations.

Note 7 - Notes Payable to Related Party (continued)

The agreement also allows for the election to make a payment on the exit fee in advance of a change of control. In 2014, the Company made an exit fee payment of $500,000, which is included in interest expense. As of December 31, 2013, the management of the Company committed to making an exit fee payment of $500,000, which was included in interest expense and accrued liabilities at December 31, 2013, and was paid to the note's holder subsequent to year-end. The note's holder has applied the payment from the Company as a reduction to the exit fee due upon the change of control. After application of the $500,000 payments made in 2014 and 2013, there is approximately $884,000 of additional exit fees calculated through December 31, 2014, which would be required to be paid out if a change-of-control event occurred. Because there has been no change-of-control event and the Company has not made an election to pay out this amount, this balance is not accrued as of December 31, 2014.

The note agreements limit capital expenditures and contain certain financial covenants for which the Company must comply related to EBITDA (as defined in the agreements).

Note 8 - Commitments

Operating leases - The Company leases the main facility from a member of Holdings. The lease agreement had an initial term maturing on December 31, 2013, but was renewed by the Company for two years. This is the first of three additional consecutive period renewal options of two years each. Each renewal term will be on the same terms and conditions as the initial term, except that base rent will equal 90% of fair market rent. Base rent for the year ending December 31, 2015, is $16,101 per month plus certain costs.

The Company also leases space from an unrelated entity. The lease agreement was entered into on January 1, 2011, for one year, which automatically extends for an additional year. The lease term rolls over to the next year and expires on December 31, 2015. The lease allows for annual renewals. The monthly base rent is $9,000 for 2014 and $9,500 for 2015.

At December 31, 2014, future minimum lease payments under the leases are $333,000 for the year ended December 31, 2015.

Total rent expenses under lease agreements for the years ended December 31, 2014 and 2013, were approximately $340,500 and $371,000, respectively.

License agreements - The Company has several license agreements for which the Company is obligated to pay either a percentage of the sales price or a set price per unit sold for every product sold that incorporates the patented design identified in the license agreements. The terms of the agreements run concurrent with the term of the underlying patents. License agreement expense under these licenses for the years ended December 31, 2014 and 2013, was approximately $121,000 and $78,000, respectively.

Purchase commitments - The Company purchases supplies for its products from various vendors. As of December 31, 2014 and 2013, respectively, the Company had outstanding purchase orders totaling approximately $5,283,000 and $7,311,000 for inventory on order and expected to be received within the following year.

Note 9 - Employee Benefit Plan

The Company has a qualified 401(k) and profit sharing plan (the Plan). The Plan is for eligible full-time employees who are over the age of 21, with 90 days of service. The participant must have at least 1,000 hours of service in a Plan year. The Company may make discretionary contributions to the Plan. The Company made safe harbor contributions to the Plan in the amount of $112,664 and $-0- for the Plan years ended December 31, 2014 and 2013, respectively.

Note 10 - Executive Unit Plan

In January 2012, Holdings established an executive unit plan (the SOG Plan). The SOG Plan is for any employee, officer, director, manager, and/or consultant of the Company, pursuant to which awards of Holdings Class C units may be granted. The Class C units represent profit interests of Holdings that only have value to the holders of the units after the fair market value of the units exceeds a threshold value as defined in the LLC operating agreement. The total number of units available for awards is 2,285, of which 2,279 have been awarded as of December 31, 2014. During 2014, 570 units were granted and are outstanding. There were no units granted in 2013. The fair value of the awards was calculated based on calculating the present value of estimated distributions to the Class C unit holders based on the terms of Holdings' LLC operating agreement and the calculation of a future exit value using a discounted cash flow method. The total grant-date fair value for the awards issued during 2014 was determined to be approximately $198,000. The equity-based compensation related to the incentive units has been recorded on the statements of income of the Company as a component of operating expenses over the vesting term of the awards. The awards generally vest over three to four years. Upon termination of service, any unvested units are cancelled. If a termination of service is for cause (as defined in the agreement), Holdings has the right to cancel all units, whether vested or not. The Company recorded compensation expense of $140,640 and $250,482 in 2014 and 2013, respectively.

The following is a summary of the units granted under the SOG Plan:

	Units Outstanding	Units Vested
December 31, 2013	$ 2,094	$ 956
Granted	190	
Vested		460
December 31, 2014	$ 2,284	$1,416

Expected compensation expense for future years ending December 31 are as follows:

2015	$149,000
2016	54,000
2017	49,000
2018	25,000
	$277,000

Exhibit 99.6

Report of Independent Auditors
and Financial Statements for

SOG Specialty Knives and Tools, LLC

December 31, 2013 and 2012

CONTENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Member
SOG Specialty Knives and Tools, LLC

Report on Financial Statements

We have audited the accompanying financial statements of SOG Specialty Knives and Tools, LLC (a wholly owned subsidiary of SOG Specialty K&T Holdings, LLC), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SOG Specialty Knives and Tools, LLC as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, SOG Specialty Knives and Tools, LLC adopted a new method of accounting for goodwill and has revised their previously issued 2013 financial statements. Our opinion is not modified with respect to this matter.

/s/ Moss Adams LLP

Everett, Washington
May 12, 2014

SOG SPECIALTY KNIVES AND TOOLS, LLC
BALANCE SHEETS

	December 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash	$ 158,490	$ 26,956
Trade accounts receivable, net of allowance of $71,637 and $92,405, respectively	4,159,332	3,964,970
Inventories, net	9,625,225	6,992,665
Prepaid expenses and other current assets	562,817	470,822
Total current assets	14,505,864	11,455,413
PROPERTY AND EQUIPMENT, net	760,258	714,786
OTHER ASSETS		
Deferred financing costs, net	336,523	464,694
Intangible assets, net	15,815,560	17,069,599
Goodwill	10,984,431	10,984,431
Other assets	78,534	90,767
	27,215,048	28,609,491
	$42,481,170	$40,779,690
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Line of credit	$ 4,474,106	$ 5,604,135
Trade accounts payable	2,088,060	850,891
Accrued expenses	2,344,983	1,119,191
Capital lease obligation	14,939	14,939
Total current liabilities	8,922,088	7,589,156
LONG-TERM LIABILITIES		
Notes payable to related party	18,399,000	18,399,000
Capital lease obligations, net of current portion	13,694	28,267
MEMBER'S EQUITY	15,146,388	14,763,267
	$42,481,170	$40,779,690

See accompanying notes.

SOG SPECIALTY KNIVES AND TOOLS, LLC
STATEMENTS OF OPERATIONS

	Years Ended December 31, 2013	2012
NET SALES	$36,946,378	$31,955,524
COST OF GOODS SOLD	21,693,911	18,021,916
Gross profit	15,252,467	13,933,608
OPERATING EXPENSES		
Selling and marketing	5,371,886	3,993,007
General and administrative	6,191,690	6,402,750
Earnout adjustment (Note 10)	—	(633,000)
Total operating expenses	11,563,576	9,762,757
INCOME FROM OPERATIONS	3,688,891	4,170,851
OTHER EXPENSE		
Interest expense	3,456,252	2,964,479
NET INCOME (LOSS)	$ 232,639	$ 1,206,372

See accompanying notes.

BALANCE, December 31, 2011	$ 13,417,754
Vesting of profit interest grants	139,141
Net income	1,206,372
BALANCE, December 31, 2012	14,763,267
Vesting of profit interest grants	250,482
Repurchase of member units	(100,000)
Net loss	232,639
BALANCE, December 31, 2013	$ 15,146,388

See accompanying notes.

SOG SPECIALTY KNIVES AND TOOLS, LLC
STATEMENTS OF CASH FLOWS

	Years Ending December 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 232,639	$ 1,206,372
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation and amortization	1,573,246	1,521,583
Profit interest compensation expense	250,482	139,141
Change in fair value of accrued earnout liability	—	(633,000)
Amortization of deferred financing costs	128,171	133,004
Changes in current assets and liabilities		
Trade accounts receivable	(194,362)	(923,500)
Inventories	(2,632,560)	(690,319)
Prepaid expenses and other assets	(79,762)	(145,056)
Trade accounts payable	1,237,169	(999,875)
Accrued expenses	1,225,792	147,664
Net cash from operating activities	1,740,815	(243,986)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(364,679)	(259,173)
Payment of accrued earnout	—	(5,041,365)
Net cash from investing activities	(364,679)	(5,300,538)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) on line of credit	(1,130,029)	4,804,135
Capital lease payments	(14,573)	(15,122)
Repurchase of member units	(100,000)	—
Net cash from financing activities	(1,244,602)	4,789,013
NET INCREASE (DECREASE) IN CASH	131,534	(755,511)
CASH, beginning of year	26,956	782,467
CASH, end of year	$ 158,490	$ 26,956
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 2,817,527	$ 2,829,241

See accompanying notes.

Note 1 - Change in Accounting Policy for Goodwill and Financial Statement Revision

Effective January 1, 2013, SOG Specialty Knives and Tools, LLC (the Company) changed its method of accounting for goodwill on a prospective basis as a result of the Company's adoption of the accounting alternative provided by Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council).*

As a result of adopting the alternative in ASU 2014-02, the Company's previously issued financial statements for the year ended December 31, 2013, included goodwill amortization expense of $1,098,443. Subsequent to the issuance of its 2013 financial statements, the Company determined that it no longer qualified to apply this alternative. Accordingly, the Company has changed its accounting method for goodwill to eliminate the amortization of goodwill with the following impacts to its previously issued 2013 financial statements:

	As Previously Reported	As Revised
Goodwill	$ 9,885,988	$10,984,431
General and administrative expenses	7,039,651	5,941,208
Net income (loss)	(865,804)	232,639
Member's equity	14,047,945	15,146,388

The 2012 financial statements were not affected by this change.

Note 2 - Organization and Summary of Significant Accounting Policies

Organization - SOG Specialty Knives and Tools, LLC is a Delaware limited liability company and is a wholly owned subsidiary of SOG Specialty K&T Holdings, LLC (Holdings). The Company is in the business of designing, manufacturing, packaging, and distributing knives and specialty tools through a worldwide dealer network.

Basis of accounting - The Company prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates - Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses in the reporting period. Actual amounts could differ from those estimates. Significant estimates include bad debt and return allowances, lives for tangible and definite-lived intangible assets and goodwill, inventory valuations and reserves, and earnout contingencies.

Trade accounts receivable - Sales are made to approved customers on an open-account basis. Receivables are generally unsecured. The Company monitors credit limits and payment habits of its customers to mitigate risk of loss from uncollectible accounts.

Note 2 - Organization and Summary of Significant Accounting Policies (continued)

Trade accounts receivable are stated at the original invoice amount. Management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to pay through a charge to earnings and a credit to the allowance based on their assessment of the current status of individual accounts and the overall aging of the receivables. Trade accounts receivable are written off when deemed uncollectible and recoveries of trade accounts receivable previously written off are recorded as a reduction of bad debt expense when received. The Company has established credit policies and historically the losses related to customer nonpayment have been low as a percentage of sales.

The Company entered into a receivables factoring agreement with a bank (purchaser) whereby all of a major customer's receivables are submitted and sold to the purchaser upon product shipment. The receivables are sold without recourse at a discount reflecting LIBOR (LIBOR term varies depending on underlying receivable discount term) plus a spread (1.25%). At December 31, 2013, the one-month LIBOR was 0.1672%. The purchaser receives all cash collections. The spreads are evaluated periodically by the purchaser. The factoring arrangement typically accelerates collection of accounts receivable by 50 to 55 days from the customer's payment due date according to the terms of sale. Total discounts were not significant for the years ended December 31, 2013 and 2012. The discounts are included in net sales on the statements of income.

Concentration of business and credit risk - The Company is subject to concentrations of credit risk through its cash and trade accounts receivable. Credit risk, with respect to trade accounts receivable, is minimized due to the diversification of the Company's customer base and its geographical dispersion. The concentration of credit risk is equal to the outstanding trade accounts receivable balances, and such risk is subject to the financial and industry conditions of the Company's customers. The Company does not require collateral or other securities to support trade accounts receivable. At times, cash balances in banks may be in excess of federally insured limits. The Company has not experienced any losses in its cash accounts.

For the year ended December 31, 2013, revenue from two customers totaled 31% of revenue. For the year ended December 31, 2012, revenue from two customers totaled 25% of revenue. Accounts receivable for one and three customers at December 31, 2013 and 2012, was approximately 40% and 41%, respectively.

The Company purchases a significant quantity of product materials from suppliers outside the United States at prices that are determined by contract. All the purchases are denominated in U.S. dollars with the exception of one vendor where the purchases are denominated in yen. Total purchases from this vendor were $839,000 and $1.56 million for the years ended December 31, 2013 and 2012, respectively. Fluctuation of foreign currency exchange rates exposes the Company to changes in inventory costs and gross margins. For the years ended December 31, 2013 and 2012, purchases from one supplier with facilities located in Asia totaled 32% and 34%, respectively, of inventory purchases. Management believes that other suppliers could provide the necessary products; however, such a change may result in manufacturing delays.

Note 2 - Organization and Summary of Significant Accounting Policies (continued)

Inventories - Inventories are valued at the lower of cost or market, determined by the first-in, first-out method. The Company regularly analyzes its inventory for obsolescence and lower of cost or market adjustments. Inventory reserves are recorded for excess quantities, obsolescence, and adjustments to present inventory at the lower of cost or market. Reserves totaled $50,000 as of December 31, 2013 and 2012 and result in the inventory being recorded at its adjusted cost basis.

Property and equipment - Property and equipment are recorded at cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. The estimated useful lives of machinery, equipment, furniture, and fixtures are five years. Leasehold improvements are amortized over the lesser of the useful life of the asset or the remaining term of the lease. Expenditures that materially increase the lives of assets are capitalized. The cost and related accumulated depreciation or amortization of property sold or retired are removed from the accounts and resulting gains or losses are included in operations. Minor repairs and maintenance are charged to expense as incurred.

Deferred financing costs - The deferred financing costs were incurred in the process of executing the related party notes payable (Note 8). The financing costs are amortized to interest expense over the five-year term of the notes using the effective interest method. Amortization expense was $128,171 and $133,004 for the years ended December 31, 2013 and 2012, respectively.

Intangible assets - The Company's intangible assets consist of trade names, developed technology, customer relationships, and a noncompete agreement. Amounts are subject to amortization on the straight-line basis over their estimated useful lives. Management assesses the carrying value of intangible assets for potential impairment when an event occurs or circumstances change to suggest the carrying value of the assets may be greater than their fair value. Significant costs to renew or extend the term of certain intangible assets, primarily trademarks, will be capitalized and recognized over the renewal term. Management has determined there is no impairment at December 31, 2013 and 2012.

Goodwill - Goodwill represents the excess of the cost of the Company over the fair value of the net assets at the date of acquisition. The Company assesses qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company evaluated qualitative factors in performing its annual goodwill impairment test for 2013 and 2012 and concluded that goodwill was not impaired. Significant events and circumstances taken into consideration in arriving at this conclusion include the level of revenues and profitability since the Company was acquired.

Valuation of long-lived assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from use of the assets and their ultimate disposition. In circumstances where impairment is determined to exist, the Company will write down the assets to their estimated fair value based on either the present value of estimated expected future cash flows or the anticipated realizable market value.

Note 2 - Organization and Summary of Significant Accounting Policies (continued)

Member's equity - Holdings is the sole member of the Company. Managers appointed by Holdings manage the business and affairs of the Company. No member or manager shall be liable for the debts, obligations, or liabilities of the Company, solely by reason of being a member or acting as a manager. Holdings will receive all profits and losses, receive all distributions, and have all the voting rights of the Company. During 2013, the Company repurchased 100 units from a member for a purchase price of $100,000.

Income taxes - The Company is a limited liability company (LLC) (taxable as a partnership for U.S. tax purposes). Accordingly, taxable income or loss generated by its activities is reported on the tax returns of its members. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2010.

Revenue recognition - Revenue from the sale of the Company's products is recognized at time of transfer of title to the customer. Revenue is reduced by amounts relating to promotional rebates, volume rebates, cash discounts, and returns. These sales incentives and promotions totaled approximately $1,231,780 and $904,259 for the years ended December 31, 2013 and 2012, respectively. Revenue is presented net of applicable taxes.

Cost of goods sold - Cost of goods sold includes purchases, depreciation, changes in product inventory, other production costs, and delivery costs. Other production costs include direct labor, overhead, repairs and maintenance, and supplies used in the production process.

Shipping and delivery - The Company incurs shipping and delivery costs in the delivery of products to its customers. These costs are completely included in cost of goods sold for the year ended December 31, 2013. These costs were primarily included in the cost of goods sold with the exception of approximately $250,000 of certain warehouse handling costs and shipping supplies that are included in general and administrative expenses for the year ended December 31, 2012. In certain circumstances, shipping and delivery costs are billed to and paid for by the customer, included as a component of net sales.

Operating expenses - Operating expenses consist primarily of compensation costs, amortization expense, expenses for rent, business and property taxes, marketing, and other general operating expenses.

Advertising costs - The Company expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2013 and 2012, was $607,554 and $197,979, respectively. Additionally, the Company offers advertising rebate programs with customers whereby if a customer advertises Company-related products and provides evidence of advertising, the Company provides certain incentives to the customers in the form of credits against future orders. The Company records the value of these credits in the year the advertising occurred and recognized total expense related to these programs of $1,572,904 and $1,042,504 for the years ended December 31, 2013 and 2012, respectively.

Note 2 - Organization and Summary of Significant Accounting Policies (continued)

Management agreements - The Company entered into management agreements with each of the majority members of Holdings on August 5, 2011, which require the Company to pay quarterly management fees equal to amounts ranging from $125,000 to $150,000, depending on trailing 12-month EBITDA (earnings before interest, taxes, depreciation, and amortization). The agreement has a term of seven years, with an automatic one-year extension unless notice is given by the parties. Management fees for the years ended December 31, 2013 and 2012, were $500,000.

Product warranty - The Company's products are guaranteed against defects in workmanship and materials for the life of the original purchaser and requires the replacement or repair of the products that meet the warranty terms. The Company estimates and accrues the cost of its warranties monthly. Estimates are based on historic data and projected costs. All other warranty expenses are recognized in the period the replacement or repair occurs. The warranty costs and related warranty accrual as of and for the years ended December 31, 2013 and 2012, were not significant.

Subsequent events - Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the consolidated financial statements are available to be issued.

The Company has evaluated subsequent events through May 12, 2014, which is the date the financial statements are available to be issued. See Notes 6 and 8 for disclosure of significant subsequent events occurring after December 31, 2013.

Note 3 - Inventories

Inventories consist of the following at December 31:

	2013	2012
Raw materials	$2,114,788	$2,909,302
Finished goods	6,548,141	3,800,433
Inventories in transit	1,012,296	332,930
Inventory reserves	(50,000)	(50,000)
Total inventories	$9,625,225	$6,992,665

Note 4 - Property and Equipment

Property and equipment consist of the following at December 31, 2013:

	2013	2012
Machinery and tooling	$ 966,224	$ 670,722
Computer equipment and software	298,055	241,988
Office equipment and other	160,706	147,596
Transportation equipment	8,238	8,238
	1,433,223	1,068,544
Less accumulated depreciation and amortization	(672,965)	(353,758)
Property and equipment, net	$ 760,258	$ 714,786

Depreciation and amortization expense on property and equipment for the years ended December 31, 2013 and 2012, was $319,207 and $255,311, respectively.

Note 5 - Intangible Assets

Customer relationships - Customer relationships represent the estimated fair value of customer relationships obtained in business combinations. The excess earnings method is considered by management to represent the fair value of customer relationships. The excess earnings look at projected discounted cash flows of the customer relationships, considering estimated attrition rates. Customer relationships are being amortized over 25 years.

Developed technology - Developed technology represents the estimated fair value of internally developed technology and designs incorporated in the products obtained in business acquisitions. The relief of royalty income method is considered by management to represent the fair value of the developed technology as it looks at the income streams that would result if the technology was licensed from a third party. Developed technology is being amortized over 10 years.

Trade name - Trade name represent the estimated fair value of exclusive rights to specified registered trademarks, trade names, and domain names obtained in business combinations. The relief of royalty income method and market information is considered by management to represent the fair value of these trademarks. Trade name is being amortized over 15 years.

Noncompete agreement - Noncompete agreement represents the estimated fair value of the noncompete agreement entered into during a business combination. The estimated discounted cash flows of potential lost revenues in the absence of the noncompete agreement were considered by management to represent the fair value of the agreement. The noncompete agreement is being amortized over 3.5 years.

Note 5 - Intangible Assets (continued)

Definite-lived intangibles consist of the following at December 31, 2013 and 2012:

	December 31, 2013			
	Weighted Average (Years)	Cost	Accumulated Amortization	Net Cost
Customer relationships	25.0	$ 6,809,722	$ (654,490)	$ 6,155,232
Developed technology	10.0	5,358,482	(1,287,524)	4,070,958
Trade name	15.0	6,652,469	(1,065,627)	5,586,842
Noncompete agreement	3.5	8,064	(5,536)	2,528
		$18,828,737	$(3,013,177)	$15,815,560

	December 31, 2012			
	Weighted Average (Years)	Cost	Accumulated Amortization	Net Cost
Customer relationships	25.0	$ 6,809,722	$ (382,101)	$ 6,427,621
Developed technology	10.0	5,358,482	(751,676)	4,606,806
Trade name	15.0	6,652,469	(622,129)	6,030,340
Noncompete agreement	3.5	8,064	(3,232)	4,832
		$18,828,737	$(1,759,138)	$17,069,599

Amortization expense totaled $1,254,039 for the years ended December 31, 2013 and 2012, respectively.

Future amortization of definite-lived intangibles is expected to be recognized over a weighted-average period of 15 years and is as follows for future years ending December 31 and thereafter:

2014	$ 1,254,039
2015	1,251,959
2016	1,251,735
2017	1,251,735
2018	1,251,735
Thereafter	9,554,357
	$15,815,560

Note 6 - Bank Line of Credit

At December 31, 2013, and 2012, the Company had up to $7,500,000 available in a revolving credit line with a commercial bank. The principal balance outstanding on the line of credit is limited to certain borrowing base requirements. The line of credit is subject to renewal July 2, 2015. The terms of the credit agreement require interest to accrue at the Alternate Base Rate (3.25% at December 31, 2013, and 2012) plus 1% or the Eurodollar Rate (.1672% and .2108% at December 31, 2013 and 2012, respectively) plus 3%, and is paid monthly. The Company elects the interest rate option at the time the advance is requested. The Alternate Base Rate is the higher of 1) the bank's base commercial lending rate, 2) the Federal Funds Open Rate plus one-half of 1%, or 3) the daily LIBOR rate plus 1%. The Eurodollar Rate is based on the one-month LIBOR rate. The line of credit is collateralized by essentially all assets of the Company. The loan is guaranteed by Holdings, who is a co-borrower on the loan. There was $4,474,106 and $5,604,135 outstanding under the line of credit as of December 31, 2013 and 2012, respectively, of which $474,106 was under the Alternate Base Rate and $4,000,000 was under the Eurodollar Rate as of December 31, 2013. The line-of-credit agreement contains certain financial covenants related to debt coverage and EBITDA (as defined in the agreement).

Subsequent to December 31, 2013, the line of credit was amended to increase the availability to $10,000,000, reduce certain borrowing base requirements, and extend the maturity date to July 2, 2017.

Note 7 - Capital Lease Obligations

The Company has two capital lease agreements for machinery and tooling related to the manufacture of the Company's products. Monthly payments under the capital leases total $1,427, including interest at an implicit rate of 13%. Assets under capital leases are included in property and equipment were approximately $29,000 and $45,000, net of accumulated amortization, as of December 31, 2013 and 2012, respectively. These assets are amortized over the estimated useful lives.

Minimum payments under capital lease for future years ending December 31 are as follows:

2014	$17,129
2015	15,702
Total minimum lease payments	32,831
Less amount representing interest	4,198
Present value of capital lease payments	28,633
Less current portion	14,939
	$13,694

Note 8 - Notes Payable to Related Party

The Company has two note agreements with a member of Holdings totaling $18,399,000, described as follows as of December 31:

	2013	2012
Term A note agreement with member of Holdings, maturing August 4, 2016; interest payable monthly commencing September 1, 2011, at a rate equal to the one-month LIBOR plus 11.25%, provided that in no event the interest be lower than 13.25%. On each interest payment date after December 31, 2012, and prior to maturity date, in lieu of payment of the interest in part or whole, paid-in-kind may be made by adding such amount to the principal amount of the note.	$ 6,199,500	$ 6,199,500
Term B note agreement with member of Holdings, maturing August 4, 2016; interest payable monthly commencing September 1, 2011, at a rate equal to the one-month LIBOR plus 12.75%, provided that in no event the interest be lower than 14.75%. On each interest payment date after December 31, 2012, and prior to maturity date, in lieu of payment of the interest in part or whole, paid-in-kind may be made by adding such amount to the principal amount of the note.	12,199,500	12,199,500
	$18,399,000	$18,399,000

The notes in the previous table were both issued on August 5, 2011. The principal amounts on both notes totaling $18,399,000 are due in lump-sum payments on August 4, 2016. The note agreements stipulate that if the Company prepays any portion of the notes prior to the third anniversary of the notes, the Company would be required to pay a prepayment penalty equal to a percentage of the principal repaid. The prepayment percentages are 3% prior to the first anniversary, 2% after the first anniversary but before the second anniversary, and 1% after the second anniversary but before the third anniversary. No prepayments were made in 2012 or 2013. In addition, the note agreements stipulate upon change of control or prepayment of the amounts outstanding of Term A and Term B prior to maturity date, the Company would pay to the member an exit fee in the amount equal to 3% per annum on the greater of the 1) Term A outstanding and $4,649,625 and 2) Term B outstanding and $9,149,625. The exit fee shall survive termination of the repayment of the obligations.

Note 8 - Notes Payable to Related Party (continued)

The agreement also allows for the election to make a payment on the exit fee in advance of a change of control. As of December 31, 2013, the management of the Company committed to making an exit fee payment of $500,000, which is included in interest expense and accrued liabilities at December 31, 2013, and was paid to the note's holder subsequent to year-end. The note's holder has applied the payment from the Company as a reduction to the exit fee due upon the change of control. After application of the $500,000 payment, there is approximately $832,000 of additional exit fees calculated through December 31, 2013, which would be required to be paid out if a change of control event occurred. Because there has been no change of control event and the Company has not made an election to pay out this amount, this balance is not accrued as of December 31, 2013.

The note agreements limit capital expenditures and contain certain financial covenants for which the Company must comply related to EBITDA (as defined in the agreements).

Subsequent to December 31, 2013, the maturity dates of the notes were extended to October 3, 2017 and certain covenants were modified to be less restrictive.

Note 9 - Commitments

Operating leases - The Company leases the main facility from a member of Holdings. The lease agreement had an initial term maturing December 31, 2013, but was renewed by the Company for two years. This is the first of three additional consecutive period renewal options of two years each. Each renewal term will be on the same terms and conditions as the initial term, except that base rent will equal 90% of fair market rent. Base rent for the year ending December 31, 2014, is $15,645 per month plus certain costs. Base rent for the year ending December 31, 2015, is $16,101 per month plus certain costs.

The Company also leases space from an unrelated entity. The lease agreement was entered into on January 1 2011, for one year, which automatically extends for an additional year. The lease term rolls over to the next year and expires on December 31, 2013. The lease allows for annual renewals. The monthly base rent is $8,669 and $9,006 for 2013 and 2014, respectively.

At December 31, 2013, future minimum lease payments under the leases are as follows:

2014	$320,214
2015	217,608
	$537,822

Total rent expenses under lease agreements for the years ended December 31, 2013 and 2012, were approximately $371,000 and $370,000, respectively.

Note 9 - Commitments (continued)

License agreements - The Company has several license agreements for which the Company is obligated to pay either a percentage of the sales price or a set price per unit sold for every product sold that incorporates the patented design identified in the license agreements. The terms of the agreements run concurrent with the term of the underlying patents. License agreement expense under these licenses for the years ended December 31, 2013 and 2012, was approximately $78,000 and $95,000, respectively.

Purchase commitments - The Company purchases supplies for its products from various vendors. As of December 31, 2013 and 2012, respectively, the Company had outstanding purchase orders totaling approximately $7,311,000 and $5,450,000 for inventory on order and expected to be received within the following year.

Note 10 - Fair Value Measurements

The *Fair Value Measurements and Disclosures* topic of the Accounting Standards Codification (ASC) applies to all assets and liabilities that are being measured and reported on a fair value basis. It requires disclosure that establishes a framework for measuring fair value in generally accepted accounting practices, and expands disclosure about fair value measurements. This topic enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 - Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 - Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or that can be derived principally from or corroborated by observable market data.

Level 3 - Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The Company’s accrued earnout liability is classified in accordance with ASC 820 as a Level 3 liability because the amount is determined using a present value calculation using a probability-weighted analysis based on the expected achievement of factors related to the contingent payment. As discussed below, the Level 3 liability has a fair value of zero at December 31, 2013 and 2012.

Note 10 - Fair Value Measurements (continued)

The accrued earnout liability consists of amounts recorded in connection with prior acquisitions. Two separate transactions had potential earnout payments of $6,000,000 and $800,000, respectively. The amounts were originally recorded on the date of the prior acquisitions based on the present value of the contingent consideration liability and totaled $4.9 million and $250,000, respectively. During 2013, there were no earnout payments made. During 2012, the Company paid $5,041,365 related to the earnout liabilities. As of December 31, 2012, management reassessed the fair value of the remaining liability based on updated expectations and probability of the payment of the liability and recorded a decrease in the fair value of the accrued earnout liability of $633,000 to a fair value of zero. The remeasurement of the earnout liability decreased operating expenses by $633,000 for the year ended December 31, 2012. There were no additional adjustments to the fair value during 2013 and all the earnouts expired as of December 31, 2013.

Note 11 - Employee Benefit Plan

The Company has a qualified 401(k) and profit sharing plan (the Plan). The Plan is for eligible full-time employees who are over the age of 21, with at least one year of service. The participant must have at least 1,000 hours of service in a Plan year. The Company may make discretionary contributions to the Plan. The Company made no discretionary profit sharing contributions to the Plan for the years ended December 31, 2013 and 2012.

Note 12 - Executive Unit Plan

In January 2012, Holdings established an executive unit plan (the SOG Plan). The SOG Plan is for any employee, officer, director, manager, and/or consultant of the Company, pursuant to which awards of Holdings Class C units may be granted. The Class C units represent profit interests of Holdings that only have value to the holders of the units after the fair market value of the units exceed a threshold value as defined in the LLC operating agreement. The total number of units available for awards is 1,905. During 2012, 1,713.5 units were granted and are outstanding. There were no units granted in 2013. The fair value of the awards was calculated using a discounted cash flow method to determine a future exit value. The fair value of the Class C units was then based on the present value of the estimated distributions to the Class C unit holders calculated based on the terms of Holdings' LLC operating agreement and the calculated future exit value. The total grant date fair value for the awards issued during 2012 was determined to be approximately $616,000. The equity-based compensation related to the incentive units has been recorded on the statements of income of the Company as a component of operating expenses over the vesting term of the awards. The awards generally vest over three to four years. Upon termination of service, any unvested units are cancelled. If a termination of service is for cause (as defined in the agreement), Holdings has the right to cancel all units, whether vested or not. The Company recorded compensation expense of $250,482 and $139,141 in 2013 and 2012, respectively. At December 31, 2013 and 2012, respectively, there are 956 and 222 units vested.

Note 12 - Executive Unit Plan (continued)

Expected compensation expense for future years ending December 31 are as follows:

2014	$120,000
2015	102,000
2016	4,000
	$226,000