

GLADSTONE INVESTMENT CORPORATION\DE

Form 497

November 06, 2014

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**Filed Pursuant to Rule 497  
File No. 333-181879**

## **PROSPECTUS SUPPLEMENT**

**(to Prospectus dated September 4, 2014)**

**\$36,000,000**

### **6.75% Series B Cumulative Term Preferred Stock**

#### **Liquidation Preference \$25 Per Share**

We are offering 1,440,000 shares of our 6.75% Series B Cumulative Term Preferred Stock ( Series B Term Preferred Stock ) due 2021. We will pay monthly dividends on the Series B Term Preferred Stock at an annual rate of 6.75% of the \$25 liquidation preference per share, or \$1.6875 per share of Series B Term Preferred Stock per year, on the last business day of each month, commencing on December 31, 2014.

We are required to redeem all of the outstanding Series B Term Preferred Stock on December 31, 2021, at a redemption price equal to \$25 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. We will also be required to redeem all of the outstanding Series B Term Preferred Stock at a redemption price equal to \$25 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption in the event of certain events that constitute a Change of Control (as described in this prospectus supplement) of the company. If we fail to maintain Asset Coverage of at least 200% (as described in this prospectus supplement), we will redeem a sufficient number of shares of our 7.125% Series A Cumulative Term Preferred Stock ( Series A Term Preferred Stock ) (traded on the NASDAQ Global Select Market ( NASDAQ ) under the symbol GAINP ), Series B Term Preferred Stock, and any other outstanding shares of preferred stock issued by us (collectively, the Preferred Stock ) in an amount at least equal to the lesser of shares of (1) the minimum number of shares of Preferred Stock necessary to cause us to meet our required Asset Coverage and (2) the maximum number of Preferred Stock that we can redeem out of cash legally available for such redemption. At any time on or after December 31, 2017, at our sole option, we may redeem the Series B Term Preferred Stock at a redemption price of \$25 per share of Series B Term Preferred Stock, plus any accumulated but unpaid dividends, if any, on the Series B Term Preferred Stock to, but excluding, the date of redemption. We cannot effect any amendment, alteration or repeal of our obligation to redeem all of the Series B Term Preferred Stock on December 31, 2021 without the prior unanimous consent of the holders of Series B Term Preferred Stock.

Each holder of our Series B Term Preferred Stock (and any other outstanding preferred stock we have issued or may issue in the future) will be entitled to one vote for each share held by such holder on any matter submitted to a vote of our stockholders, and the holders of all of our outstanding preferred stock and common stock will generally vote together as a single class. The holders of the Series B Term Preferred Stock together with the Series A Term Preferred Stock and any other preferred stock we may issue in the future, voting separately as a single class, will elect two of our directors and, upon our failure to pay dividends for at least two years, will elect a majority of our directors. The Series B Term Preferred Stock will rank equally in right of payment with all other shares of Preferred Stock and will rank senior in right of payment to our outstanding common stock.

We have applied to have the Series B Term Preferred Stock listed on the NASDAQ under the symbol GAINO. Our common stock is traded on the NASDAQ under the symbol GAIN and our Series A Term Preferred Stock is traded on the NASDAQ under the symbol GAINP. On October 31, 2014, the last sale price of our common stock as reported on NASDAQ was \$7.35 per share and the last sale price of our Series A Term Preferred Stock as reported on NASDAQ was \$26.16 per share, respectively. The Series B Term Preferred Stock will not be convertible into our common stock or any other security of our company.

**The securities in which we invest generally would be rated below investment grade if they were rated by rating agencies. Below investment grade securities, which are often referred to as junk, have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be difficult to value and illiquid.**

**Investing in the Series B Term Preferred Stock involves a high degree of risk, including, among other things, the risk of leverage and risks relating to investments in securities of small, private and developing businesses. You could lose some or all of your investment. You should carefully consider each of the factors described under Risk Factors beginning on page S-10 of this prospectus supplement and beginning on page 12 of the accompanying prospectus before you invest in the Series B Term Preferred Stock.**

**The Securities and Exchange Commission, or the SEC, has not approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	PER SHARE	TOTAL <sup>(2)</sup>
Public offering price	\$ 25.00	\$ 36,000,000
Underwriting discounts and commissions	\$ 0.875	\$ 1,260,000
Proceeds before expenses, to us <sup>(1)</sup>	\$ 24.125	\$ 34,740,000

(1) Total expenses of the offering payable by us, excluding underwriting discounts and commissions, are estimated to be \$250,000.

(2) We have granted the underwriters a 30-day option to purchase up to an additional 216,000 shares of Series B Term Preferred Stock from us on the same terms and conditions set forth above solely to cover over-allotments, if any. If such option is exercised in full, the total public offering price will be \$41,400,000, the total underwriting discounts and commissions will be \$1,449,000 and total proceeds, before expenses, to us would be \$39,951,000. See Underwriting on page S-68 of this prospectus supplement.

The underwriters expect to deliver the Series B Term Preferred Stock on or about November 13, 2014.

*Sole Book-Running Manager*

**Janney Montgomery Scott**

*Lead Manager*

**Sterne Agee**

*Co-Managers*

**BB&T Capital**

**J.J.B. Hilliard,**

**Wunderlich**

**Ladenburg**

**Markets**

**W.L. Lyons, LLC**

**Securities**

**Thalmann**

**Prospectus Supplement dated November 5, 2014**

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement, together with the accompanying prospectus, sets forth the information that you should know before investing. You should read the prospectus supplement and accompanying prospectus, which contain important information, before deciding whether to invest in the Series B Term Preferred Stock.

We also file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act. You may inspect such reports, proxy statements and other information, as well as this prospectus supplement, the accompanying prospectus and the exhibits and schedules to the registration statement of which the accompanying prospectus is a part, at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's website is <http://www.sec.gov>. You may also obtain copies of such material from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates.

You may request a free copy of this prospectus supplement, the accompanying prospectus, our annual reports to stockholders, when available, and other information about us, and make stockholder inquiries by calling (866) 366-5745 or by writing to us at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, or from our website (<http://www.GladstoneInvestment.com>). The information contained in, or that can be accessed through, our website is not part of this prospectus supplement or the accompanying prospectus. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We also furnish to our stockholders annual reports, which include annual financial information that has been examined and reported on, with an opinion expressed, by our independent registered public accounting firm.

This prospectus supplement, which describes the specific terms of this offering, also adds to and updates information contained in the accompanying prospectus. The accompanying prospectus gives more general information, some of which may not apply to this offering. If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement. However, if any statement in one of these documents is inconsistent with a statement in another document having a later date, the statement in the document having the later date modifies or supersedes the earlier statement.

**The Series B Term Preferred Stock does not represent a deposit or obligation of, and is not guaranteed or endorsed by, any bank or other insured depository institution, and is not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus in making an investment decision. We have not authorized any other person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell the Series B Term Preferred Stock in any jurisdiction where such an offer or sale is not permitted. The information appearing in this prospectus supplement and in the accompanying prospectus is accurate only as of the dates on their respective covers, regardless of the time of delivery or any sale of the Series B Term Preferred Stock.**

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This is only a summary. You should review the more detailed information contained elsewhere in this prospectus supplement and in the accompanying prospectus, including the Company's Certificate of Designation of 6.75% Series B Cumulative Term Preferred Stock of Gladstone Investment Corporation, or the Certificate of Designation, the form of which is attached as Appendix A to this prospectus supplement, and especially the information set forth under the heading Risk Factors prior to making an investment in the Series B Term Preferred Stock. In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the Company, we, us or our refers to Gladstone Investment Corporation; Adviser refers to Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; and Gladstone Companies refers to our Adviser and its affiliated companies. Capitalized terms used but not defined in this prospectus supplement or accompanying prospectus have the meanings given to such terms in the Certificate of Designation. Unless otherwise stated, the information in this prospectus supplement and the accompanying prospectus does not take into account the possible exercise by the underwriters of their overallotment option.*

**Gladstone Investment Corporation**

Gladstone Investment Corporation is an externally managed specialty finance company that invests in subordinated loans, mezzanine debt, preferred stock and common stock as well as warrants to purchase common stock of small and medium-sized companies in connection with buyouts and other recapitalizations. We focus our investments in lower middle market companies, which we define as companies with annual EBITDA of between \$2 million and \$8 million, in stable industries. When we invest in buyouts, we typically do so with the management team of the company being purchased and with other buyout funds. We also sometimes invest in senior secured loans, common stock and, to a much lesser extent, senior and subordinated syndicated loans. Our investment objective is to generate both current income and capital gains through these debt and equity instruments.

As of September 30, 2014, our portfolio consisted of investments in 30 companies in 14 states in 15 different industries with a fair value of \$346.9 million, consisting of senior term debt, subordinated term debt, preferred equity and common equity. Our weighted average yield on our interest-bearing investments for the six months ended September 30, 2014, excluding cash and cash equivalents and receipts recorded as other income, was 12.6%. For the fiscal years ended March 31, 2014 and 2013, our weighted average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as other income, was 12.6% and 12.5%, respectively.

Since our initial public offering in June 2005, we have made 112 consecutive monthly distributions. Our monthly distribution declared per share of common stock was \$0.06 in each of October and November of 2014. Our Board of Directors has also declared a monthly dividend of \$0.06 per share of common stock for December 2014 and a one-time special distribution of \$0.05 per share of common stock for the month of December 2014. Our monthly distribution declared per share of Series A Term Preferred Stock was \$0.1484375 for each of October, November and December, 2014.

We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, or the 1940 Act. In addition, for tax purposes, we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or the Code.

As of September 30, 2014, we had 26,475,958 shares of common stock, par value \$0.001 per share, or Common Stock, outstanding and 1,600,000 shares of Series A Term Preferred Stock outstanding.

Our principal executive offices are located at 1521 Westbranch Drive, Suite 100, McLean, Virginia 22102, and our telephone number is (703) 287-5800. Our corporate website is located at <http://www.GladstoneInvestment.com>. Information on, or accessible through, our website is not incorporated into or a part of this prospectus supplement or the accompanying prospectus.

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### **Investment Strategy**

We seek 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 expect that our investment mix over time will consist of approximately 80% in debt securities and 20% in equity securities. However, as of September 30, 2014, our investment mix was approximately 72% in debt securities and 28% in equity securities, at cost.

In general, our investments in debt securities have a term of no more than seven years, accrue interest at variable rates (based on the 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, have 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 ).

Typically, our equity investments consist 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 expect that our target portfolio over time will primarily include the following four categories of investments in private companies in the United States ( U.S. ):

*Senior Debt Securities:* We seek to invest a portion of our assets in senior 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 debt security usually takes the form of first priority liens on the assets of the business. Senior debt securities may include our participation and investment in the syndicated loan market, although we have none in our investment portfolio at this time.

*Senior Subordinated Debt Securities:* We seek to invest a portion of our assets in senior subordinated debt securities, also known as senior subordinated loans and senior subordinated notes. These senior subordinated debts also include second lien notes and may include participation and investment in syndicated second lien loans. Additionally, we may receive other yield enhancements, such as success fees, in connection with these senior subordinated 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 include second lien notes and unsecured loans. Additionally, we may receive other yield

enhancements and 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 or partnership interests, or warrants or options to acquire such securities, and are generally in combination with our

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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.

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 high risk, as compared to investment-grade debt instruments. In addition, many of our debt securities we hold typically do not amortize prior to maturity.

## **Our Investment Adviser and Administrator**

Gladstone Management Corporation, our Adviser, is our affiliate and investment adviser. Our Adviser is led by a management team that has extensive experience in our lines of business. Excluding our chief financial officer and treasurer, all of our executive officers serve as either directors or executive officers, or both, of our Adviser, our Administrator and certain other companies affiliated with us and advised by our Adviser (Gladstone Capital Corporation (NASDAQ: GLAD), Gladstone Commercial Corporation (NASDAQ: GOOD), and Gladstone Land Corporation (NASDAQ: LAND)). Our president serves as a director of certain of our affiliated companies (Gladstone Capital and Gladstone Commercial). Our Administrator, another of our affiliates, employs our chief financial officer and treasurer, chief compliance officer, general counsel and secretary (who also serves as the President of our Administrator) and their respective staffs.

Our Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliated funds, some of which may co-invest with us on certain portfolio investments. In the future, our Adviser and our Administrator may provide investment advisory and administrative services, respectively, to other funds, both public and private.

We are externally managed by our Adviser pursuant to an investment advisory and management agreement with the Adviser, which we refer to as the Advisory Agreement. Our Adviser was organized as a Delaware corporation in 2002 and is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act. Since June 22, 2005, we have been externally managed by our Adviser, which is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in California, Illinois and New York. At a meeting of our Board of Directors held on July 15, 2014, our Board of Directors unanimously voted to approve the extension of the term of the Advisory Agreement through August 31, 2015. In reaching a decision to approve the Advisory Agreement, the Board of Directors reviewed a significant amount of information and considered, among other things:

the nature, quality and extent of the advisory and other services to be provided to us by the Adviser;

our investment performance and that of our Adviser;

the costs of the services to be provided and profits to be realized by our Adviser from the relationship with us;

the fee structures of comparable externally managed business development companies that engage in similar investing activities; and

various other matters.

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Based on the information reviewed and the considerations detailed above, our Board of Directors, including all of the directors who are not interested persons as that term is defined in the 1940 Act, concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and approved the Advisory Agreement, as well as the Administration Agreement, as being in the best interests of our stockholders.

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**THE OFFERING**

The following is a brief summary of some of the terms of this offering. For a more complete description of the rights, preferences and other terms of the Series B Term Preferred Stock, see Description of the Series B Term Preferred Stock in this prospectus supplement and the Certificate of Designation.

<b>Issuer</b>	Gladstone Investment Corporation
<b>Securities Offered</b>	1,440,000 shares of 6.75% Series B Cumulative Term Preferred Stock due 2021, or 1,656,000 shares if the underwriters exercise their overallotment option in full.
<b>Listing</b>	We have applied to list the Series B Term Preferred Stock on the NASDAQ under the symbol GAINO. Trading on the Series B Term Preferred Stock is expected to begin within 30 days after the date of initial delivery of the Series B Term Preferred Stock. Prior to the expected commencement of trading on the NASDAQ, the underwriters may make a market in the Series B Term Preferred Stock, but they are not obligated to do so and may discontinue any market-making at any time without notice.
<b>Liquidation Preference</b>	\$25 per share, plus accumulated but unpaid dividends, if any. In the event of any liquidation, dissolution or winding up of our affairs, holders of the Series B Term Preferred Stock will be entitled to receive a liquidation distribution per share equal to \$25 per share (which we refer to in this prospectus supplement as the Liquidation Preference), plus an amount equal to all accumulated but unpaid dividends, if any, and distributions accumulated to, but excluding, the date fixed for distribution or payment, whether or not earned or declared by us, but excluding interest on any such distribution or payment. See Description of the Series B Term Preferred Stock Liquidation Rights.
<b>Dividends</b>	<p>The Series B Term Preferred Stock will pay a monthly dividend at a fixed annual rate of 6.75% of the Liquidation Preference, or \$1.6875 per share per year, which we refer to as the Fixed Dividend Rate. The Fixed Dividend Rate is subject to adjustment under certain circumstances, but will not in any case be lower than \$1.6875 per share per year.</p> <p>Cumulative cash dividends or distributions on each Series B Term Preferred Share will be payable monthly, when, as and if declared, or under authority granted, by our Board of Directors out of funds legally</p>

available for such payment. The first dividend period for the Series B Term Preferred Stock will commence on the initial issuance date of such shares upon the closing of this offering, which we refer to as the Date of Original Issue, and will end on December 31, 2014.

**Ranking**

The shares of Series B Term Preferred Stock are senior securities that constitute capital stock of the Company.

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The Series B Term Preferred Stock ranks:

senior to the Common Stock in priority of payment of dividends and as to the distribution of assets upon dissolution, liquidation or the winding-up of our affairs;

equal in priority with all other series of Preferred Stock we have issued or may issue as to priority of payment of dividends and as to distributions of assets upon dissolution, liquidation or the winding-up of our affairs; and

effectively subordinated to certain of our existing and future indebtedness, including without limitation, borrowings under our credit facility.

We may issue additional shares of Preferred Stock, but we may not issue additional classes of capital stock that rank senior to the Series A Term Preferred Stock or Series B Term Preferred Stock as to priority of payment of dividends and as to distribution of assets upon dissolution, liquidation or winding-up of our affairs. We may, however, borrow funds from banks and other lenders so long as the ratio of (1) the value of total assets less the total borrowed amounts to (2) the sum of all senior securities representing indebtedness and the number of shares of outstanding Series A Term Preferred Stock and Series B Term Preferred Stock multiplied by \$25 per share is not less than 200%.

**Mandatory Term Redemption**

We are required to redeem all outstanding Series B Term Preferred Stock on December 31, 2021, at a redemption price equal to the Liquidation Preference, plus an amount equal to accumulated but unpaid dividends, if any, on such shares (whether or not earned or declared, but excluding interest on such dividends) to, but excluding, the redemption date. If we fail to redeem the Series B Term Preferred Stock pursuant to the mandatory redemption required on December 31, 2021, or in any other circumstance in which we are required to redeem the Series B Term Preferred Stock, then the Fixed Dividend Rate will increase by four percent (4%) for so long as such failure continues. See Description of the Series B Term Preferred Stock Redemption and Voting Rights.

**Mandatory Redemption for Asset Coverage**

If we fail to maintain Asset Coverage (as defined below) of at least 200% as of the close of business on any calendar day on which the NASDAQ is open for trading, or a Business Day, on which Asset Coverage is required to be calculated, and such failure is not cured by the close of business on



the date that is 30 calendar days following such Business Day (referred to in this prospectus supplement as an Asset Coverage Cure Date), then we are required to redeem, within 90 calendar days of the Asset Coverage Cure Date, shares of

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Preferred Stock equal to the lesser of (1) the minimum number of shares of Preferred Stock that will result in our having Asset Coverage of at least 200% and (2) the maximum number of shares of Preferred Stock that can be redeemed out of funds legally available for such redemption, provided further, that in connection with any such redemption for failure to maintain such Asset Coverage, we may redeem such additional number of shares of Preferred Stock that will result in our having Asset Coverage of up to and including 215%. The Preferred Stock to be redeemed may include, at our sole option, any number or proportion of the Series A Term Preferred Stock, Series B Term Preferred Stock, and other series of Preferred Stock. If shares of Series B Term Preferred Stock are to be redeemed in such an event, they will be redeemed at a redemption price equal to the Liquidation Preference, plus accumulated but unpaid dividends, if any, on such shares (whether or not declared, but excluding interest on accumulated but unpaid dividends, if any) to, but excluding, the date fixed for such redemption.

Asset Coverage for purposes of our Preferred Stock is a ratio calculated under Section 18(h) of the 1940 Act, as in effect on the date of the Certificate of Designation, and is determined on the basis of values calculated as of a time within 48 hours (only including Business Days) preceding each determination. We estimate that, on the Date of Original Issue, our Asset Coverage, based on the composition and value of our portfolio as of September 30, 2014, and after giving effect to (1) the issuance of the Series B Term Preferred Stock offered in this offering and (2) the payment of underwriting discounts and commissions of \$1.3 million and estimated related offering costs payable by us of approximately \$250,000, would have been 261%. Our net investment income coverage, which is calculated by dividing our net investment income by the amount of distributions to holders of our Common Stock, averaged approximately 102.7% for the twelve months ended March 31, 2014 and approximately 95.1% for the six months ended September 30, 2014. Net investment income coverage has varied each year since our inception, and there is no assurance that historical coverage levels will be maintained. See Description of the Series B Term Preferred Stock Asset Coverage.

**Optional Redemption**

At any time on or after December 31, 2017, at our sole option, we may redeem the Series B Term Preferred Stock in whole or from time to time, in part, out of funds legally available for such redemption, at the Liquidation Preference, plus an amount equal to accumulated but unpaid dividends, if any, on such shares (whether or not earned or declared, but excluding interest on such dividends) to, but excluding, the date fixed for such redemption. See Description of the Series B Term Preferred Stock Redemption Optional Redemption. See Description of the Series B Term Preferred Stock Redemption.

**Change of Control Redemption**

If a Change of Control Triggering Event occurs, unless we have exercised our option to redeem the Series B Term Preferred Stock, we

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will be required to redeem all of the outstanding Series B Term Preferred Stock at the Liquidation Preference, plus an amount equal to accumulated but unpaid dividends, if any, on such shares (whether or not earned or declared, but excluding interest on such dividends) to, but excluding, the date fixed for such redemption. For the definition of Change of Control Triggering Event and additional information concerning the redemption of the Series B Term Preferred Stock in connection with such events, see Description of the Series B Term Preferred Stock Redemption Change of Control.

## **Voting Rights**

Except as otherwise provided in our Amended and Restated Certificate of Incorporation or as otherwise required by law, (1) each holder of Preferred Stock (including the Series B Term Preferred Stock) will be entitled to one vote for each share of Preferred Stock held by such holder on each matter submitted to a vote of our stockholders and (2) the holders of all outstanding Preferred Stock and Common Stock will vote together as a single class; provided, that holders of Preferred Stock, voting separately as a class, will be entitled to elect two of our directors and, if we fail to pay dividends on any outstanding shares of Preferred Stock in an amount equal to two full years of dividends and continuing until such failure is corrected, will be entitled to elect a majority of our directors. Preferred Stock holders will also vote separately as a class on any matter that materially and adversely affects any preference, right or power of holders of Preferred Stock. See Description of the Series B Term Preferred Stock Voting Rights.

## **Conversion Rights**

The Series B Term Preferred Stock will have no conversion rights.

## **Use of Proceeds**

We intend to use the net proceeds from this offering of approximately \$34.5 million (after the payment of underwriting discounts and commissions of \$1.3 million and estimated offering expenses payable by us of approximately \$250,000) to repay borrowings under our credit facility. Amounts repaid under our credit facility remain available for future borrowings and we may use the proceeds of future borrowings under our credit facility to make investments in accordance with our investment strategy and for other general corporate purposes. See Use of Proceeds.

## **U.S. Federal Income Taxes**

Prospective investors are urged to consult their own tax advisors regarding the tax considerations relevant to holders of the Series B Term Preferred Stock in light of their personal investment circumstances.

We have elected to be treated, and intend to continue to so qualify each year, as a RIC under Subchapter M of the Code, and we generally do not expect to be subject to U.S. federal income tax.

The dividends on the Series B Term Preferred Stock generally will not qualify for the dividends received deduction or for taxation as qualified dividend income.

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**Risk Factors**

Investing in the Series B Term Preferred Stock involves risks. You should carefully consider the information set forth in the sections entitled **Risk Factors** beginning on page S-10 of this prospectus supplement and page 12 of the accompanying prospectus before deciding whether to invest in our Series B Term Preferred Stock.

**Information Rights**

During any period in which we are not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and any shares of Series B Term Preferred Stock are outstanding, we will provide holders of Series B Term Preferred Stock, without cost, copies of annual reports and quarterly reports substantially similar to the reports on Form 10-K and Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such provisions or, alternatively, we will voluntarily file reports on Form 10-K and Form 10-Q as if we were subject to Section 13 or 15(d) of the Exchange Act.

**Redemption and Paying Agent**

We have entered into an amendment to our Transfer Agency and Service Agreement with Computershare, Inc., or Computershare, which we refer to as the Redemption and Paying Agent in this prospectus supplement. Under this amendment, the Redemption and Paying Agent will serve as transfer agent and registrar, dividend disbursing agent and redemption and paying agent with respect to the Series B Term Preferred Stock.

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**RISK FACTORS**

*You should carefully consider the risks described below, and the risks described in Risk Factors beginning on page 12 of the accompanying prospectus, before deciding to invest in the Series B Term Preferred Stock. The risks and uncertainties described below and in the accompanying prospectus are not the only ones 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 and the value of the Series B Term Preferred Stock. If any of the following risks or the risks described in the accompanying prospectus actually occur, our business, financial condition or results of operations could be materially adversely affected, and the value of the Series B Term Preferred Stock may be impaired. If that happens, the trading price of the Series B Term Preferred Stock could decline, and you may lose all or part of your investment.*

**Risks of Investing in Preferred Stock**

**An investment in preferred stock with a fixed interest rate bears interest rate risk.**

Preferred stock pays dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on securities comparable to the Series B Term Preferred Stock may increase, which would likely result in a decline in the secondary market price of the Series B Term Preferred Stock prior to December 31, 2021, which we refer to as the Mandatory Term Redemption Date. This risk may be even more significant in light of low currently prevailing market interest rates. For additional information concerning dividends on the Series B Term Preferred Stock, see Description of the Series B Term Preferred Stock Dividends and Dividend Periods.

**There may be no initial secondary trading market due to delayed listing, and even after listing a liquid secondary trading market may not develop.**

During a period of up to 30 days from the date of this prospectus supplement, the Series B Term Preferred Stock will not be listed on any securities exchange. During this period, the underwriters may make a market in the Series B Term Preferred Stock, but they are not obligated to do so and may discontinue any market-making at any time without notice. Consequently, an investment in the Series B Term Preferred Stock during this period may be illiquid, and holders of such shares may not be able to sell them during that period as it is unlikely that an active secondary market for the Series B Term Preferred Stock will develop. If a secondary market does develop during this period, holders of the Series B Term Preferred Stock may be able to sell such shares only at substantial discounts from the Liquidation Preference. We cannot accurately predict the trading patterns of the Series B Term Preferred Stock, including the effective costs of trading the stock. There is also a risk that such shares may be thinly traded, and the market for such shares may be relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms and features.

**The Series B Term Preferred Stock will not be rated.**

We do not intend to have the Series B Term Preferred Stock rated by any rating agency. Unrated securities usually trade at a discount to similar, rated securities. As a result, there is a risk that the Series B Term Preferred Stock may trade at a price that is lower than it might otherwise trade if rated by a rating agency. It is possible, however, that one or more rating agencies might independently determine to assign a rating to the Series B Term Preferred Stock. In addition, we may elect to issue other securities for which we may seek to obtain a rating. If any ratings are assigned to the Series B Term Preferred Stock in the future or if we issue other securities with a rating, such ratings, if they are lower than market expectations or are subsequently lowered or withdrawn, could adversely affect the market for or the

market value of the Series B Term Preferred Stock.

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### **The Series B Term Preferred Stock will bear a risk of early redemption by us.**

We may voluntarily redeem some or all of the Series B Term Preferred Stock on or after December 31, 2017, which is four years before the Mandatory Term Redemption Date. We also may be forced to redeem some or all of the Series B Term Preferred Stock to meet regulatory requirements and the Asset Coverage requirements of such shares. We are also required to redeem all of the Series B Term Preferred Stock upon a Change of Control Triggering Event. Any such redemptions may occur at a time that is unfavorable to holders of the Series B Term Preferred Stock. We may have an incentive to redeem the Series B Term Preferred Stock voluntarily before the Mandatory Term Redemption Date if market conditions allow us to issue other Preferred Stock or debt securities at a rate that is lower than the Fixed Dividend Rate on the Series B Term Preferred Stock, or for other reasons. For further information regarding our ability to redeem the Series B Term Preferred Stock, see Description of the Series B Term Preferred Stock Redemption and Asset Coverage.

### **Claims of holders of the Series B Term Preferred Stock will be subject to a risk of subordination relative to holders of our debt instruments.**

Rights of holders of the Series B Term Preferred Stock will be subordinated to the rights of holders of our current and any future indebtedness, including our credit facility. Even though the Series B Term Preferred Stock will be classified as a liability for GAAP purposes and considered senior securities under the 1940 Act, the Series B Term Preferred Stock are not debt instruments. Therefore, dividends, distributions and other payments to holders of Preferred Stock in liquidation or otherwise may be subject to prior payments due to the holders of our indebtedness. In addition, under some circumstances the 1940 Act may provide debt holders with voting rights that are superior to the voting rights of holders of the Series B Term Preferred Stock.

### **We are subject to risks related to the general credit crisis and related liquidity risks.**

General market uncertainty and extraordinary conditions in the credit markets may impact the liquidity of our investment portfolio. In turn, during extraordinary circumstances, this uncertainty could impact our distributions and/or ability to redeem the Series B Term Preferred Stock in accordance with their terms. Further, there may be market imbalances of sellers and buyers of Series B Term Preferred Stock during periods of extreme illiquidity and volatility in the credit markets. Such market conditions may lead to periods of thin trading in any secondary market for the Series B Term Preferred Stock and may make valuation of the Series B Term Preferred Stock uncertain. As a result, the spread between bid and ask prices is likely to increase significantly such that, if you invest in the Series B Term Preferred Stock, you may have difficulty selling your shares. Less liquid and more volatile trading environments could also result in sudden and significant valuation declines in the Series B Term Preferred Stock.

### **Holders of the Series B Term Preferred Stock will be subject to inflation risk.**

Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted, or real, value of an investment in Preferred Stock or the income from that investment will be worth less in the future. As inflation occurs, the real value of the Series B Term Preferred Stock and dividends payable on such shares declines.

### **Holders of the Series B Term Preferred Stock will bear reinvestment risk.**

Given the seven-year term and potential for early redemption of the Series B Term Preferred Stock, holders of such shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of the Series B Term Preferred Stock may be lower than the return previously

obtained from the investment in such shares.

**Holders of Series B Term Preferred Stock will bear dividend risk.**

We may be unable to pay dividends on the Series B Term Preferred Stock under some circumstances. The terms of our indebtedness preclude the payment of dividends in respect of equity securities, including the Series B Term Preferred Stock, under certain conditions.

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**Table of Contents****We face Asset Coverage risks in our investment activities.**

The Asset Coverage that we maintain on our Preferred Stock, including the Series B Term Preferred Stock, will be based upon a calculation of the value of our portfolio holdings. Our portfolio investments are, and we expect a large percentage of such investments 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 is generally not readily determinable. Our Board of Directors has established an investment valuation policy and consistently applied valuation procedures to determine the fair value of these securities on a quarterly basis. The procedures for the determination of value of many of our debt securities rely on opinions of value submitted to us by Standard & Poor's Securities Evaluations, Inc., or SPSE, as corroborated by our internal valuation team, the use of internally developed discounted cash flow, or DCF, methodologies, or internal methodologies based on the total enterprise value, or TEV, of the issuer, which we use for certain of our equity investments. SPSE will only evaluate the debt portion of investments for which we specifically request an evaluation, and SPSE may decline to provide requested evaluations for any reason in its sole discretion.

A portion of our assets are, and will continue to be, comprised of equity securities that are valued based on internal assessment using valuation methods approved by our Board of Directors, without the input of SPSE or any other third-party evaluator. While we believe that our equity valuation methods reflect those regularly used as standards by other professionals in our industry who value equity securities, the determination of fair value for securities that are not publicly traded necessarily involves an exercise of subjective judgment, whether or not we obtain the recommendations of an independent third-party evaluator.

Our use of these fair value methods is inherently subjective and is based on estimates and assumptions regarding each security. In the event that we are required to sell a security, we may ultimately sell for an amount materially less than the estimated fair value calculated by us or SPSE, or determined using TEV or the DCF methodology. As a result, a risk exists that the Asset Coverage attributable to the Preferred Stock, including the Series B Term Preferred Stock, may be materially lower than what is calculated based upon the fair valuation of our portfolio securities in accordance with our valuation policies. See Risk Factors Risks Related to Our Investments 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 NAV on page 22 of the accompanying prospectus.

**There is a risk of delay in our redemption of the Series B Term Preferred Stock, and we may fail to redeem such securities as required by their terms.**

We 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 obtain cash equal to the value at which we record our investments quickly if a need arises. If we are unable to obtain sufficient liquidity prior to the Mandatory Term Redemption Date or a Change of Control Triggering Event, we may be forced to engage in a partial redemption or to delay a required redemption. If such a partial redemption or delay were to occur, the market price of the Series B Term Preferred Stock might be adversely affected.

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**We finance our investments with borrowed money and 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 <sup>(1)</sup>	(19.23)%	(11.20)%	(3.16)%	4.87%	12.90%

<sup>(1)</sup> The hypothetical return to common stockholders is calculated by multiplying our total assets as of September 30, 2014, by the assumed rates of return and subtracting all interest accrued on our debt, adjusted for the assumed dividends declared on the Series B Term Preferred Stock to be issued in this offering (and assuming proceeds are used to pay down debt as described under "Use of Proceeds"); and then dividing the resulting difference by our total assets attributable to common stock. Based on \$361.2 million in total assets, \$87.8 million in debt outstanding at cost, \$5.1 million in a secured borrowing, \$40 million in aggregate liquidation preference of Series A Term Preferred Stock, and \$224.8 million in net assets as of September 30, 2014.

Based on an outstanding indebtedness of \$92.9 million as of September 30, 2014, and the effective annual interest rate of 4.01% as of that date, and aggregate liquidation preference of our Series A Term Preferred Stock of \$40.0 million, our investment portfolio at fair value would have been required to experience an annual return of at least 1.65% to cover annual interest payments on our outstanding debt and the Preferred Stock.

**Other Risks**

**In addition to regulatory limitations on our ability to raise capital, our credit facility contains various covenants that, 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. In addition, we are obligated to redeem our Series A Term Preferred Stock in February 2017. If we do not have sufficient funds to redeem the Series A Term Preferred Stock, or if we do not have sufficient funds remaining following such redemption, we may experience an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the credit facility and monthly dividend obligations with respect to our Preferred Stock.**

We will have a continuing need for capital to finance our loans. We are party to a credit facility, which provides us with a revolving credit line facility of \$185.0 million, of which \$87.8 million was drawn as of September 30, 2014. The credit facility permits us to fund additional loans and investments as long as we are within the conditions set forth in the credit agreement. As a result of the credit facility, we are subject to certain limitations on the type of loan investments we make, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, and average life. The credit agreement also requires us to comply with other financial and operational covenants, which require us to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum net worth. As of September 30, 2014, we were in compliance with these covenants; however, our continued compliance with these covenants depends on many factors, some of

which are beyond our control. Current market conditions have forced us to write down the value of a portion of our assets as required by the 1940 Act and fair value accounting rules. These are not realized losses, but constitute adjustment in asset values for purposes of financial reporting and for collateral value for the credit facility. As assets are marked down in value, the amount we can borrow on the credit facility decreases.

In particular, depreciation in the valuation of our assets, which valuation is subject to changing market conditions that remain very volatile, affects our ability to comply with the covenants under the credit facility. As of September 30, 2014, our net assets were \$224.8 million, down from \$226.8 million at June 30, 2014, and up from

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\$220.8 million at March 31, 2014. The increase in our net assets is primarily a result of unrealized appreciation over the respective periods. The minimum net worth covenant contained in the credit agreement requires our net assets to be at least \$170.0 million plus 50% of all equity and subordinated debt raised after June 26, 2014 minus 50% of all equity and subordinated debt retired or redeemed after June 26, 2014, which equates to \$170 million as of September 30, 2014. Despite the recent increase in our net assets, the fair value of our investment portfolio remains less than the cost basis by approximately \$65.2 million. Given the slow recovery and general volatility in the capital markets, the cumulative 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 the credit facility. Accordingly, there are no assurances that we will continue to comply with these covenants. Under the credit facility, we are also required to maintain our status as a BDC under the 1940 Act and as a RIC under the Code. 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.

In addition, we are required to redeem all outstanding Series A Term Preferred Stock on February 28, 2017, at a redemption price equal to the liquidation preference, plus an amount equal to accumulated but unpaid dividends, if any, on such shares (whether or not earned or declared, but excluding interest on such dividends) to, but excluding, the redemption date. If we fail to redeem the Series A Term Preferred Stock pursuant to the mandatory redemption required on February 28, 2017, or in any other circumstance in which we are required to redeem the Series A Term Preferred Stock, then the fixed dividend rate of the Series A Term Preferred Stock will increase to an annual rate of 11% for so long as such failure continues. If we do not have sufficient funds to redeem the Series A Term Preferred Stock or if we do not have sufficient funds remaining following such redemption, we may experience an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the credit facility and monthly dividend obligations with respect to our Preferred Stock.

**Our amount of senior securities outstanding will increase as a result of this offering, which could adversely affect our business, financial condition and results of operations, our ability to meet our payment obligations under the credit facility and our ability to meet the asset coverage requirements of the 1940 Act.**

As of September 30, 2014, we had \$40.0 million outstanding of Series A Term Preferred Stock and \$87.8 million of borrowings outstanding under our credit facility. We intend to use the proceeds from this offering to repay borrowings under our credit facility, then to make investments in buyouts and recapitalizations of small and mid-sized companies in accordance with our investment strategy, with any remaining proceeds to be used for other general corporate purposes. Shares of our Preferred Stock are considered senior securities and our amount of senior securities outstanding will therefore increase as a result of this offering.

The issuance of additional senior securities could have significant consequences on our future operations, including:

making it more difficult for us to meet our payment and other obligations under our credit facility;

resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our credit facility, which event of default could result in all amounts outstanding under our credit facility becoming immediately due and payable;

reducing the availability of our cash flow to fund investments and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and

increasing the likelihood of our failing to meet the asset coverage requirements of the 1940 Act, as described below.

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**We may authorize, establish, create, issue and sell shares of one or more series of a class of our senior securities while shares of Series B Term Preferred Stock are outstanding without the vote or consent of the holders thereof.**

While shares of Series B Term Preferred Stock are outstanding, we may, without the vote or consent of the holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of our senior securities representing stock under Section 18, as modified by Section 61, of the 1940 Act, ranking on parity with the Series B Term Preferred Stock as to payment of dividends and distribution of assets upon dissolution, liquidation or the winding up of our affairs, in addition to then outstanding shares of Series B Term Preferred Stock, including additional series of Preferred Stock, and authorize, issue and sell additional shares of any such series of Preferred Stock then outstanding or so established and created, in each case in accordance with applicable law, provided that we will, immediately after giving effect to the issuance of such additional Preferred Stock and to our receipt and application of the proceeds thereof, including to the redemption of Preferred Stock with such proceeds, have Asset Coverage of at least 200%.

**Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the credit facility and monthly dividend obligations or redemption obligations with respect to our Preferred Stock.**

Our ability to meet our payment and other obligations under our credit facility and monthly dividend obligations with respect to our Preferred Stock depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our credit facility or otherwise, in an amount sufficient to enable us to meet these obligations and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under our credit facility or monthly dividend obligations with respect to our Preferred Stock.

In addition, we may issue debt securities, other evidences of indebtedness (including borrowings under our credit facility), senior securities representing indebtedness and senior securities that are 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 that are stock (such as our Preferred Stock), 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. The issuance of additional senior securities in this offering may increase the likelihood of our failing to meet the asset coverage requirements of the 1940 Act, especially while our Series A Term Preferred Stock remains outstanding. 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 at below net asset value ( NAV ) per common share, any non-participating common stockholders will be subject to dilution.

**Pending legislation may allow us to incur additional leverage.**



As a BDC, we are generally not permitted to incur indebtedness (which includes senior securities representing indebtedness and senior securities that are stock) unless immediately after such borrowing we have an asset coverage (as defined in Section 18(h) of the 1940 Act) of at least 200.0% (i.e. the amount of borrowings may not

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exceed 50.0% of the value of our assets). Various pieces of legislation that have been introduced during the current session of the U.S. House of Representatives, if passed, would modify this section of the 1940 Act and increase the amount of such indebtedness that BDCs may incur by modifying the percentage from 200.0% to 150.0% and making the asset coverage requirement inapplicable for senior securities that are stock, such as preferred stock. Our Preferred Stock is currently considered a senior security that is stock and so for this 200.0% asset coverage threshold is included as total indebtedness. However, if this proposed legislation is passed, the 1940 Act may not limit our ability to issue Preferred Stock in the future. As a result, we may be able to issue an increased amount of senior securities and incur additional indebtedness in the future, and therefore, your risk of an investment in us may increase. There can be no assurance whether or not this proposed legislation will be passed in the current form, or at all.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

All statements contained in this prospectus supplement or the accompanying prospectus, other than historical facts, may constitute forward-looking statements. These statements may relate to future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, growth, plan, intend, expect, should, would, potential, likely or the negative 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:

further adverse changes in the economy and the capital markets;

risks associated with negotiation and consummation of pending and future transactions;

the loss of one or more of our executive officers, in particular David Gladstone, David A. R. Dullum or Terry Lee Brubaker;

changes in our business strategy;

availability, terms and deployment of capital;

changes in our industry, interest rates or exchange rates or the general economy;

the degree and nature of our competition;

our ability to maintain our qualification as a RIC and as a BDC; and

those factors described in the Risk Factors section of this prospectus supplement and the accompanying prospectus.

We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. 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 prospectus supplement or the accompanying prospectus, except as otherwise required by applicable law. The forward-looking statements contained or incorporated by reference in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act.

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**USE OF PROCEEDS**

We estimate that the net proceeds to us of this offering will be approximately \$34.5 million, after the payment of underwriting discounts and commissions of \$1.3 million and estimated offering expenses of \$250,000 payable by us. We intend to use the net proceeds from this offering to repay borrowings outstanding under our credit facility. Amounts repaid under our credit facility remain available for future borrowings and we may use the proceeds of future borrowings under our credit facility to make investments in accordance with our investment strategy and for other general corporate purposes. Our credit facility matures on June 26, 2019, and, as of September 30, 2014, was accruing interest at an annual rate equal to the 30-day LIBOR plus a premium of 3.25% (which was an effective interest rate of approximately 3.44% as of September 30, 2014). As of September 30, 2014, \$87.8 million was drawn on the credit facility.

We have granted the underwriters the right to purchase up to 216,000 additional shares of Series B Term Preferred Stock at the public offering price, less underwriting discounts and commissions, within 30 days of the date of this prospectus supplement solely to cover overallocments, if any. If the underwriters exercise such option in full, the estimated net proceeds to us, after the payment of underwriting discounts and commissions of \$1.4 million and estimated offering expenses of \$250,000 payable by us, will be \$39.7. We anticipate that substantially all of the net proceeds of this offering will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of the offering primarily in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

**Table of Contents****RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS**

	<b>FOR THE SIX MONTHS ENDED</b>		<b>FOR THE YEARS ENDED MARCH 31,</b>			
	<b>SEPTEMBER 30,</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in thousands)</b>					
Net investment income	\$ 9,063	\$ 19,307	\$ 16,488	\$ 13,743	\$ 16,171	\$ 10,598
Add: fixed charges and preferred dividends	3,419	5,949	4,768	1,425	1,181	3,602
Less: preferred dividends	(1,425)	(2,850)	(2,850)	(198)		
Earnings	\$ 11,057	\$ 22,406	\$ 18,406	\$ 14,970	\$ 17,352	\$ 14,200
Fixed charges and preferred distributions:						
Interest expense	\$ 1,458	\$ 2,075	\$ 1,127	\$ 768	\$ 690	\$ 1,984
Amortization of deferred financing fees	536	1,024	791	459	491	1,618
Preferred distributions	1,425	2,850	2,850	198		
Total fixed charges and preferred distributions	\$ 3,419	\$ 5,949	\$ 4,768	\$ 1,425	\$ 1,181	\$ 3,602
Ratio of earnings to combined fixed charges and preferred distributions	3.2x	3.8x	3.9x	10.5x	14.7x	3.9x

**Computation of Pro Forma Ratio of Earnings to Combined Fixed Charges and Preferred Distributions After Adjustment for issuance of the Series B Term Preferred Stock**

	<b>FOR THE SIX MONTHS ENDED</b>	<b>FOR THE YEAR ENDED</b>
	<b>SEPTEMBER 30,</b>	<b>MARCH 31,</b>
	<b>2014</b>	<b>2014</b>
Net investment income	\$ 9,063	\$ 19,307
Add: fixed charges and preferred distributions <sup>(A)</sup> , as above	3,419	5,949
Less: preferred dividends <sup>(A)</sup> , as above	(1,425)	(2,850)
Adjustments:		
Pro forma decrease of interest expense and amortization of deferred financing fees <sup>(C)</sup>	(550)	(965)
Pro forma fixed charges	1,444	2,134
Pro forma preferred distributions <sup>(B)</sup>	1,215	2,430
Total pro forma fixed charges and preferred distributions <sup>(B)</sup>	2,659	4,564
Pro forma earnings	\$ 10,507	\$ 21,441
Pro forma ratio of earnings to combined fixed charges and preferred distributions <sup>(B)</sup>	4.0x	4.7x

- (A) Preferred dividends on Series A Term Preferred Stock.
- (B) Preferred dividends on Series B Term Preferred Stock.
- (C) Pro forma decrease in interest expense is limited as the weighted average balance on our revolving line of credit was \$87.8 million and \$61.3 million for the six months ended September 30, 2014 and the fiscal year ended March 31, 2014, respectively.

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**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2014:

on an actual basis; and

on an as adjusted basis to give effect to the completion of this offering and the application of the estimated net proceeds of this offering (as described under "Use of Proceeds"), after deducting underwriters' discounts and commissions and estimated offering expenses payable by us (and assuming the underwriters' overallotment option is not exercised).

	<b>AS OF SEPTEMBER 30, 2014</b>	
	<b>AS ACTUAL</b>	<b>AS ADJUSTED</b>
	<b>(Unaudited)</b>	
	<b>(Dollars in thousands)</b>	
<b>Borrowings, at cost</b>		
Borrowings under line of credit	\$ 87,750	\$ 53,260
Secured borrowings	5,096	5,096
Total borrowings	92,846	58,356
<b>Preferred Stock</b>		
Series A Term Preferred Stock, \$.001 par value per share; \$25 liquidation preference per share; 1,610,000 shares authorized, 1,600,000 shares issued and outstanding, actual; 1,600,000 shares authorized, issued and outstanding, as adjusted	\$ 40,000	\$ 40,000
Series B Term Preferred Stock, \$.001 par value per share; \$25 liquidation preference per share; 0 shares authorized, issued and outstanding, actual; 2,000,000 shares authorized, 1,440,000 shares issued and outstanding, as adjusted <sup>(1)</sup>		36,000
<b>Net Assets Applicable to Common Stockholders</b>		
Common stock, \$.001 par value per share, 100,000,000 shares authorized, actual, and as adjusted; 26,475,958 shares issued and outstanding, actual and as adjusted <sup>(2)</sup>	\$ 26	\$ 26
Capital in excess of par value	287,062	287,062
Cumulative net unrealized depreciation of investments	(65,179)	(65,179)
Cumulative net unrealized depreciation of other	(74)	(74)
Net investment income in excess of distributions	3,148	3,148
Accumulated net realized losses	(210)	(210)
Total Net Assets Available to Common Stockholders	\$ 224,773	\$ 224,773
Total Capitalization	\$ 357,619	\$ 359,129



(1) Assumes a total of \$1.3 million of aggregate underwriting discounts and commissions and \$250,000 of estimated offering costs payable by us in connection with this offering will be capitalized and amortized over the life of the Series B Term Preferred Stock.

(2) None of these outstanding shares are held by us or for our account.

The following are our outstanding classes of securities as of September 30, 2014.

<b>TITLE OF CLASS</b>	<b>AMOUNT AUTHORIZED</b>	<b>AMOUNT HELD BY US OR FOR OUR ACCOUNT</b>	<b>AMOUNT OUTSTANDING (EXCLUSIVE OF AMOUNTS HELD BY US OR FOR OUR ACCOUNT)</b>
Common Stock	100,000,000		26,475,958
Series A Term Preferred Stock	1,610,000		1,600,000

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Table of Contents**SELECTED FINANCIAL INFORMATION**

The following consolidated selected financial data for the fiscal years ended March 31, 2014, 2013, 2012, 2011 and 2010 are derived from our consolidated financial statements that have been audited by PricewaterhouseCoopers, LLP, an independent registered public accounting firm. The consolidated selected financial data for the six months ended September 30, 2013 and 2014 are derived from our unaudited condensed consolidated financial statements included in this prospectus. The other unaudited data included at the bottom of the table are also unaudited. The data should be read in conjunction with our consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement and the accompanying prospectus.

	<b>Six Months Ended</b>		<b>Year Ended March 31,</b>					
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	
	<b>(Dollar amounts in thousands, except per share data)</b>							
<b>Statement of operations data:</b>								
Total investment income	\$ 18,908	\$ 18,757	\$ 36,264	\$ 30,538	\$ 21,242	\$ 26,064	\$ 20,785	
Total expenses net of credits from Adviser	9,845	8,496	16,957	14,050	7,499	9,893	10,187	
Net investment income	9,063	10,261	19,307	16,488	13,743	16,171	10,598	
Net gain (loss) on investments	4,404	(1,841)	(20,636)	791	8,223	268	(21,669)	
Net increase (decrease) in net assets resulting from operations	\$ 13,467	\$ 8,420	\$ (1,329)	\$ 17,279	\$ 21,966	\$ 16,439	\$ (11,071)	
<b>Per share data<sup>(A)</sup>:</b>								
Net increase (decrease) in net assets resulting from operations per common share - basic and diluted	\$ 0.51	\$ 0.32	\$ (0.05)	\$ 0.71	\$ 0.99	\$ 0.74	\$ (0.50)	
Net investment income before net gain (loss) on investments per	0.34	0.39	0.73	0.68	0.62	0.73	0.48	

common share basic and diluted								
Cash distributions declared per common share	<b>0.36</b>	0.30	<b>0.71</b>	0.60	0.61	0.48	0.48	
<u>Statement of assets and liabilities data:</u>								
Total assets	\$ <b>361,174</b>	\$ 347,095	\$ <b>330,694</b>	\$ 379,803	\$ 325,297	\$ 241,109	\$ 297,161	
Net assets	<b>224,773</b>	241,440	<b>220,837</b>	240,963	207,216	198,829	192,978	
Net asset value per common share	<b>8.49</b>	9.12	<b>8.34</b>	9.10	9.38	9.00	8.74	
Common shares outstanding	<b>26,475,958</b>	26,475,958	<b>26,475,958</b>	26,475,958	22,080,133	22,080,133	22,080,133	
Weighted common shares outstanding basic and diluted	<b>26,475,958</b>	26,475,958	<b>26,475,958</b>	24,189,148	22,080,133	22,080,133	22,080,133	
<u>Senior securities data<sup>(B)</sup>:</u>								
Borrowings under credit facility at cost	\$ <b>87,750</b>	\$ 34,000	\$ <b>61,250</b>	\$ 31,000	\$	\$	\$ 27,800	
Short term loan		22,005		58,016	76,005	40,000	75,000	
Mandatorily redeemable preferred stock	<b>40,000</b>	40,000	<b>40,000</b>	40,000	40,000			
Asset coverage <sup>(C)</sup>	<b>264%</b>	328%	<b>298%</b>	272%	268%	534%	281%	
Asset coverage per unit <sup>(D)</sup>	\$ <b>2,636</b>	\$ 3,276	\$ <b>2,978</b>	\$ 2,725	\$ 2,676	\$ 5,344	\$ 2,814	
<u>Other unaudited data:</u>								
Number of portfolio companies	<b>30</b>	24	<b>29</b>	21	17	17	16	
Average size of portfolio company investment at cost	\$ <b>13,736</b>	\$ 14,760	\$ <b>13,225</b>	\$ 15,544	\$ 15,670	\$ 11,600	\$ 14,223	
Principal amount of new investments	<b>29,345</b>	56,020	<b>132,291</b>	87,607	91,298	43,634	4,788	
Proceeds from loan repayments and investments	<b>790</b>	53,004	<b>83,415</b>	28,424	27,185	97,491	90,240	

sold

Weighted  
average yield on  
investments<sup>(E)</sup>  
Total return<sup>(F)</sup>

<b>12.58%</b>	12.56%	<b>12.61%</b>	12.51%	12.32%	11.36%	11.02%
<b>1.84</b>	0.54	<b>24.26</b>	4.73	5.58	38.56	79.80

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- (A) Per share data for net (decrease) increase in net assets resulting from operations is based on the weighted average common stock outstanding for both basic and diluted.
- (B) See Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding our level of indebtedness.
- (C) As a BDC, we are generally required to maintain asset coverage (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 Preferred Stock is a senior security that is stock.
- (D) Asset coverage per unit is the asset coverage expressed in terms of dollar amounts per one thousand dollars of indebtedness.
- (E) Weighted average yield on investments equals interest income on investments divided by the weighted average interest-bearing debt investment balance throughout the year.
- (F) Total return equals the increase (decrease) of the ending market value over the beginning market value plus monthly distributions divided by the monthly beginning market value.

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**Table of Contents****SELECTED QUARTERLY FINANCIAL DATA**

The following tables set forth certain quarterly financial information for each of the eight quarters in the two years ended March 31, 2014 and the first two quarters of the fiscal year ending March 31, 2015. The information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

	Quarter Ended	
	June 30, 2014	September 30, 2014
<b>Fiscal Year 2015</b>		
Total investment income	\$ 9,837	\$ 9,071
Net investment income	4,859	4,204
Net increase in net assets resulting from operations	10,770	2,697
Net increase in net assets resulting from operations per weighted average common share basic & diluted	\$ 0.41	\$ 0.10

	Quarter Ended			
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014
<b>Fiscal Year 2014</b>				
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

	Quarter Ended			
	June 30, 2012	September 30, 2012	December 31, 2012	March 31, 2013
<b>Fiscal Year 2013</b>				
Total investment income	\$ 5,905	\$ 6,974	\$ 7,184	\$ 10,475
Net investment income	3,238	3,451	3,952	5,847
Net (decrease) increase in net assets resulting from operations	(3,017)	(353)	4,699	15,950
Net (decrease) increase in net assets resulting from operations per weighted average common share basic & diluted	\$ (0.13)	\$ (0.02)	\$ 0.18	\$ 0.60

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**(Dollar amounts in thousands, except per share data or unless otherwise indicated)**

**OVERVIEW**

**General**

We are an externally-managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). In addition, for United States ( U.S. ) 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 ). As a BDC and a RIC, we are also subject to certain constraints, including limitations imposed by the 1940 Act and the Code.

We were incorporated under the General Corporation Law of the State of Delaware on February 18, 2005. We were established for the purpose of investing in debt and equity securities of established private businesses in the U.S. Debt investments primarily come in the form of three types of loans: senior term loans, senior subordinated loans and junior subordinated debt. Equity investments primarily take the form of preferred or common equity (or warrants or options to acquire the foregoing), often in connection with buyouts and other recapitalizations. To a much lesser extent, we also invest in senior and subordinated syndicated loans. Our investment objectives are (a) to achieve and grow current income by investing in debt securities of established businesses that we believe will provide stable earnings and cash flow to pay expenses, make principal and interest payments on our outstanding indebtedness and make distributions to stockholders that we anticipate will 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 hope will appreciate over time so that we can sell them for capital gains. We expect that our investment allocation over time will consist of approximately 80% in debt securities and 20% in equity securities. As of September 30, 2014, our investment allocation was 72% in debt securities and 28% in equity securities, at cost.

We focus on investing in small and medium-sized private U.S. businesses that meet certain of the following criteria which we believe will give us the best potential to sell our equity positions at a later date for capital gains: the potential for growth in cash flow, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the borrower, profitable operations based on the borrower's cash flow and reasonable capitalization of the borrower (usually by leveraged buyout funds or venture capital funds). 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 to finance growth, restructure their balance sheets or effect a change of control. 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.

Our common stock and 7.125% Series A Cumulative Term Preferred Stock (our Series A Term Preferred Stock ) are traded on the NASDAQ Global Select Market ( NASDAQ ) under the symbols GAIN and GAINP, respectively.

We are externally managed by our investment advisor, Gladstone Management Corporation (the Adviser ), an SEC registered investment adviser and an affiliate of ours, pursuant to an investment advisory and management agreement

(the Advisory Agreement ). The Adviser manages our investment activities. Our Board of Directors, which is composed of a majority of independent directors, supervises such 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.

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**Table of Contents****Business Environment**

The strength of the global economy, and the U.S. economy in particular, continues to be uncertain and volatile, and we remain cautious about a long-term economic recovery. The effects of the previous recession and the disruptions in the capital markets have impacted our liquidity options and increased our cost of debt and equity capital. In addition, the federal government shutdown in October 2013 combined with the uncertainty surrounding the ability of the federal government to address its fiscal condition in both the short and long term have increased domestic and global economic instability. Many of our portfolio companies, as well as those that we evaluate for possible investments, are adversely impacted by these political and economic conditions. If these conditions persist, it may adversely affect their ability to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering.

*Portfolio Activity*

While conditions remain challenging, we are seeing an increase in the number of new investment opportunities consistent with our investing strategy of providing a combination of debt and equity in support of management and sponsor-led buyouts of small and medium-sized companies in the U.S. During the three months ended September 30, 2014, we invested a total of \$21.9 million in two new deals, and subsequent to September 30, 2014, we invested \$24.4 million in another new deal. These new investments, along with the capital raising efforts discussed below, have allowed us to invest \$356.4 million in 22 new proprietary debt and equity deals since October 2010.

These new investments, as well as the majority of our debt securities in our portfolio, have a success fee component, which enhances the yield on our debt investments. Unlike paid-in-kind ( PIK ) income, we generally do not recognize success fees as income until they are received in cash. Due to 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 September 30, 2014, we had unrecognized success fees of \$21.0 million, or \$0.79 per common share, which do not meet the recognition criteria under the relevant accounting guidance.

The improved investing environment presented us with an opportunity to realize gains and other income from our investment in Venyu Solutions, Inc. ( Venyu ) as a result of its sale in August 2013. As a result of the sale, we received net cash proceeds of \$32.2 million, resulting in a realized gain of \$24.8 million and dividend income of \$1.4 million. In addition, we received full repayment of our debt investments of \$19 million and \$1.8 million in success fee income. This represents our fourth management-supported buyout liquidity event since June 2010, and in the aggregate, these four liquidity events have generated \$54.5 million in realized gains and \$13.1 million in other income, for a total increase to our net assets of \$67.6 million. We believe each of these transactions was an equity-oriented investment success and exemplify 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. These successes, in part, enabled us to increase the monthly distribution 50% since March 2011, allowed us to declare and pay a \$0.03 per common share one-time special distribution in fiscal year 2012, a \$0.05 per common share one-time special distribution in November 2013, and a \$0.05 per common share one-time special distribution payable in December 2014.

With the four liquidity events that have generated \$54.5 million 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. We took the opportunity during the fiscal year ended March 31, 2014, to strategically sell our investments in two of our portfolio companies, ASH Holding Corp. ( ASH ) and Packerland Whey Products, Inc. ( Packerland ) to existing members of their management teams and other existing owners, respectively, which resulted in realized losses of \$11.4 million and \$1.8 million, respectively, as well as the write off our equity investments in Noble Logistics, Inc. ( Noble ), which resulted in a realized loss of \$3.4 million. These sales and write off, while at a realized loss, were accretive to our net asset

value in aggregate by \$5.7 million, reduced our distribution requirements related to our realized gains and reduced our non-accruals outstanding.

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**Table of Contents***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 increases to our revolving line of credit (our Credit Facility ) and by accessing the capital markets in the form of public offerings of stock. For example, in October 2012, we issued 4.4 million shares of common stock for gross proceeds of \$33 million. Regarding our Credit Facility over the last two years, we have successfully extended the revolving period multiple times, most recently to June 2017, increased the commitment from \$60 million to \$185 million and reduced the interest rate margin from 3.75% to 3.25%.

Although we were able to access the capital markets during 2012, 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 October 27, 2014, the closing market price of our common stock was \$7.27, which represented a 14.4% discount to our September 30, 2014 net asset value ( NAV ) per share of \$8.49. When our 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 shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale, provided that 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. Prior to the August 2014 stockholder authorization, 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.

*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, which we refer to collectively as Senior Securities. As of September 30, 2014, our asset coverage ratio was 264%. Our status as a RIC under Subchapter M of the Code, in addition to other requirements, also requires us, at the close of each quarter of the taxable year, to meet an asset diversification test, which requires that at least 50% of the value of our assets consists of cash, cash items, U.S. government securities or certain other qualified securities (the 50% threshold ). In the past, we have obtained this ratio by entering into a short-term loan at quarter end to purchase qualifying assets; however, a short term loan was not necessary at the end of the quarter ended September 30, 2014. Until the composition of our assets is above the required 50% threshold on a consistent basis by a significant margin, we may have to continue to obtain short-term loans on a quarterly basis. When deployed, this strategy, while allowing us to satisfy the 50% threshold for our RIC status, limits our ability to use increased debt capital to make new investments, due to our asset coverage ratio limitations under the 1940 Act.

**Investment Highlights**

During the six months ended September 30, 2014, we disbursed \$21.9 million in new debt and equity investments and extended \$7.4 million of investments to existing portfolio companies through revolver draws or

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additions to term notes. From our initial public offering in June 2005 through September 30, 2014, we have made 221 investments in 109 companies for a total of approximately \$956.9 million, before giving effect to principal repayments on investments and divestitures.

### *Investment Activity*

During the six months ended September 30, 2014, the following significant transactions occurred:

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

In August 2014, we made a \$1.8 million equity investment in Tread Real Estate Corp. ( TREC ), which purchased the building owned by another one of our portfolio companies, Tread. This building has subsequently been leased back to Tread.

In September 2014, we invested \$20.2 million in Cambridge Sound Management, Inc. ( CSM ) through a combination of debt and equity. CSM, based in Waltham, Massachusetts, is the developer of sound systems and solutions.

Subsequent to September 30, 2014, the following significant transaction occurred:

In October 2014, we invested \$24.4 million in Old World Christmas, Inc. ( OWC ) through a combination of debt and equity. OWC, 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.

## **Recent Developments**

### *Credit Facility Extension and Expansion*

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

Once the revolving period ends, the interest rate margin increases to 3.75% for the period from June 26, 2017 to June 26, 2018, and further increases to 4.25% through maturity. We incurred fees of \$0.4 million in connection with this amendment.

On September 19, 2014, we further increased our borrowing capacity under the Credit Facility from \$105 million to \$185 million by entering into Joinder Agreements pursuant to the Credit Facility, by and among Business Investment, the Administrative Agent, the Adviser and each of East West Bank, Manufacturers and Traders Trust, Customers Bank and Talmer Bank and Trust. We incurred fees of \$0.8 million in connection with this expansion.

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**Table of Contents****RESULTS OF OPERATIONS***Comparison of the Three Months Ended September 30, 2014, to the Three Months Ended September 30, 2013*

	For the Three Months Ended September 30,			
	\$			
	2014	2013	Change	% Change
<b>INVESTMENT INCOME</b>				
Interest income	\$ 8,570	\$ 7,706	\$ 864	11.2%
Other income	501	3,653	(3,152)	(86.3)
Total investment income	9,071	11,359	(2,288)	(20.1)
<b>EXPENSES</b>				
Base management fee	1,744	1,561	183	11.7
Incentive fee	1,051	1,557	(506)	(32.5)
Administration fee	209	156	53	34.0
Interest and dividend expense	1,432	1,309	123	9.4
Amortization of deferred financing costs	282	256	26	10.2
Other	755	626	129	20.6
Expenses before credits from Adviser	5,473	5,465	8	0.1
Other credits to Adviser fees	(606)	(334)	(272)	(81.4)
Total expenses net of credits to fees	4,867	5,131	(264)	(5.1)
<b>NET INVESTMENT INCOME</b>	<b>4,204</b>	<b>6,228</b>	<b>(2,024)</b>	<b>(32.5)</b>
<b>UNREALIZED (LOSS) GAIN:</b>				
Net realized (loss) gain on investments	(12)	24,804	(24,816)	NM
Net unrealized depreciation of investments	(1,495)	(15,684)	14,189	(90.5)
Net unrealized depreciation of other		(409)	409	100.0
Net realized and unrealized (loss) gain on investments and other	(1,507)	8,711	(10,218)	NM
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 2,697</b>	<b>\$ 14,939</b>	<b>\$ (12,242)</b>	<b>(81.9)</b>
<b>BASIC AND DILUTED PER COMMON SHARE:</b>				
Net investment income	\$ 0.16	\$ 0.24	\$ (0.08)	(33.3)%
Net increase in net assets resulting from operations	\$ 0.10	\$ 0.57	\$ (0.47)	(82.5)

*NM = Not Meaningful*

## **Investment Income**

Total investment income decreased by 20.1% for the three months ended September 30, 2014, as compared to the prior year period. This decrease was due to a decrease in other income, which primarily consisted of success fee and dividend income resulting from our exit of Venyu during the three months ended September 30, 2013. The decrease in other income was partially offset by an increase in interest income resulting from an increase in the size of our portfolio during the three months ended September 30, 2014.

Interest income from our investments in debt securities increased 11.2% for the three months ended September 30, 2014, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the three months ended September 30, 2014, was approximately \$270.9 million, compared to approximately \$242.8 million for the prior year period. This increase was primarily due to approximately \$92.9 million in new investments originated after September 30, 2013, including Alloy Die



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Casting Corp. ( ADC ), Behrens Manufacturing, LLC ( Behrens ), Meridian Rack & Pinion, Inc. ( Meridian ), Head Country Inc. ( Head Country ), Edge Adhesives Holdings, Inc. ( Edge ), TREC, and CSM. At September 30, 2014, loans of one portfolio company, Tread Corp. (Tread ), were on non-accrual, with an aggregate weighted average principal balance of \$12.0 million. At September 30, 2013, loans to two portfolio companies, ASH and Tread, were on non-accrual, with an aggregate weighted average principal balance of \$26.1 million during the three months ended September 30, 2013. The weighted average yield on our interest-bearing investments was 12.6% for the three months ended September 30, 2014 and 2013, excluding cash and cash equivalents and receipts recorded as other income. The weighted average yield varies from period to period, based on the current stated interest rate on interest-bearing investments.

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

Portfolio Company	As of September 30, 2014		Three months ended September 30, 2014	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
Acme Cryogenics, Inc.	\$ 27,139	7.8%	\$ 426	4.7%
SOG Specialty Knives and Tools, LLC	23,989	6.9	670	7.4
Cambridge Sound Management, LLC <sup>(A)</sup>	20,175	5.8	6	0.1
Jackrabbit, Inc.	19,327	5.6	380	4.2
Edge Adhesives Holdings, Inc.	18,074	5.2	440	4.9
<b>Subtotal five largest investments</b>	<b>108,704</b>	<b>31.3</b>	<b>1,922</b>	<b>21.3</b>
Other portfolio companies	238,197	68.7	7,149	78.7
<b>Total investment portfolio</b>	<b>\$ 346,901</b>	<b>100.0%</b>	<b>\$ 9,071</b>	<b>100.0%</b>

Portfolio Company	As of September 30, 2013		Three months ended September 30, 2013	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
Acme Cryogenics, Inc.	\$ 27,771	9.7%	\$ 426	3.8%
Galaxy Tool Holding Corp.	24,156	8.4	535	4.7
SOG Specialty Knives and Tools, LLC	24,131	8.4	670	5.9
Schylling Investments, LLC <sup>(A)</sup>	20,000	7.0	312	2.7
Channel Technologies Group, LLC	19,642	6.8	468	4.1
<b>Subtotal five largest investment<sup>(B)</sup></b>	<b>115,700</b>	<b>40.3</b>	<b>2,411</b>	<b>21.2</b>
Other portfolio companies	171,512	59.7	8,948	78.8
<b>Total investment portfolio</b>	<b>\$ 287,212</b>	<b>100.0%</b>	<b>\$ 11,359</b>	<b>100.0%</b>

(A) New investment during the applicable period.

(B) We exited Venyu in August 2013. Investment income for Venyu for the three months ended September 30, 2013 was \$3.7 million, or 32.6% of total investment income.

Other income decreased 86.3% from the prior year period. During the three months ended September 30, 2014, other income primarily consisted of \$0.2, \$0.2, and \$0.1 million resulting from prepayments of success fees received from ASH, Frontier Packaging, Inc. ( Frontier ), and Mathey Investments, Inc. ( Mathey ), respectively. During the three months ended September 30, 2013, other income primarily consisted of \$3.3 million in success fee and dividend income received in connection with the exit of Venyu and \$0.3 million in success fee income resulting from prepayments received from Cavert II Holding Corp. ( Cavert ).

### **Expenses**

Total expenses, excluding any voluntary and irrevocable credits to the base management and incentive fees, increased 0.1% for the three months ended September 30, 2014, as compared to the prior year period, primarily

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due to an increase in the base management fee, interest expense, and other expenses as compared to the prior year period. This was partially offset by a decrease in the incentive fee for the three months ended September 30, 2014, as compared to the prior year period.

The base management fee increased for the three months ended September 30, 2014, 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 \$1.1 million was earned by the Adviser during the three months ended September 30, 2014, compared to an incentive fee of \$1.6 million for the prior year period. The base management and incentive fees are computed quarterly, as described under Investment Advisory and Management Agreement in Note 4 of the notes to our accompanying *Condensed Consolidated Financial Statements* and are summarized in the following table:

	<b>Three Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Average gross assets subject to base management fee <sup>(A)</sup>	<b>\$ 348,800</b>	\$ 312,200
Multiplied by prorated annual base management fee of 2%	<b>0.5%</b>	0.5%
Base management fee <sup>(B)</sup>	<b>1,744</b>	1,561
Other credits to Adviser fees <sup>(B)</sup>	<b>(606)</b>	(334)
Net base management fee	<b>\$ 1,138</b>	\$ 1,227
Incentive fee <sup>(B)</sup>	<b>\$ 1,051</b>	\$ 1,557

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

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

Interest and dividend expense increased 9.4% for the three months ended September 30, 2014, as compared to the prior year period, primarily due to increased average borrowings under the Credit Facility. The average balance outstanding on our Credit Facility during the three months ended September 30, 2014, was \$64.9 million, as compared to \$41.4 million in the prior year period. The increase in average borrowings under the Credit Facility was partially offset by the decrease in interest rate due to an amendment of the Credit facility that occurred June 26, 2014.

Other expenses increased 20.6% for the three months ended September 30, 2014, as compared to the prior year period, primarily due to an increase in legal expenses, as compared to the prior year period.

<b>Portfolio Company</b>	<b>Three months ended September 30, 2014</b>			
	<b>Realized (Loss)</b>	<b>Unrealized Appreciation (Depreciation)</b>	<b>Reversal of Unrealized</b>	<b>Net Gain (Loss)</b>

			<b>Depreciation (Appreciation)</b>	
Funko, LLC	\$	\$	3,116	\$ 3,116
Jackrabbit, Inc.			2,364	2,364
SBS, Industries, LLC			2,323	2,323
Alloy Die Casting Corp.			1,682	1,682
Mathey Investments, Inc.			1,628	1,628
Frontier Packaging, Inc.			1,034	1,034
Ginsey Home Solutions, Inc.			640	640
Tread Corp.			467	467
B-Dry, LLC			(251)	(251)
Drew Foam Company, Inc.			(338)	(338)
Head Country Inc.			(399)	(399)
Mitchell Rubber Products, Inc.			(452)	(452)
Behrens Manufacturing, LLC			(548)	(548)

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Portfolio Company	Three months ended September 30, 2014			
	Realized (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Depreciation (Appreciation)	Net Gain (Loss)
Country Club Enterprises, LLC		(626)		(626)
NLDI Inc.		(1,297)		(1,297)
Acme Cryogenics, Inc.		(1,306)		(1,306)
Danco Acquisition Corp.		(1,367)		(1,367)
SOG Specialty K&T, LLC		(1,398)		(1,398)
Galaxy Tool Holding Corp.		(6,666)		(6,666)
Other, net (<\$250 Net)	(12)	(101)		(113)
<b>Total</b>	<b>\$ (12)</b>	<b>\$ (1,495)</b>	<b>\$</b>	<b>\$ (1,507)</b>

**Realized and Unrealized (Loss) Gain on Investments***Realized (Loss) Gain*

During the three months ended September 30, 2014, we recorded a realized loss of \$12 relating to post-closing adjustments on previous investment exits. During the three months ended September 30, 2013, we recorded a realized gain of \$24.8 million related to the Venyu exit.

*Unrealized (Depreciation) Appreciation*

During the three months ended September 30, 2014, we recorded net unrealized depreciation on investments in the aggregate amount of \$1.5 million. The unrealized appreciation (depreciation) across our investments for the three months ended September 30, 2014, were as follows:

The primary change in our net unrealized depreciation of \$1.5 million for the three months ended September 30, 2014, was a decrease in the equity valuation of one of our portfolio companies, Galaxy Tool Holding Corp. ( Galaxy ), due to a decrease in company performance. This was partially offset by increased performance in several of our portfolio companies and, to a lesser extent, an increase in certain comparable multiples used to estimate the fair value of our investments.

Portfolio Company	Three months ended September 30, 2013			
	Realized Gain	Unrealized Appreciation (Depreciation)	Reversal of Unrealized Appreciation	Net Gain (Loss)
Venyu Solutions, Inc. <sup>(A)</sup>	\$ 24,804	\$	\$ (17,374)	\$ 7,430
Channel Technologies Group, LLC		3,372		3,372
Jackrabbit, Inc.		3,261		3,261
Country Club Enterprises, LLC		1,565		1,565
Star Seed, Inc.		926		926
Acme Cryogenics, Inc.		864		864

Frontier Packaging, Inc.	757	757		
Funko, LLC	396	396		
B-Dry, LLC	(502)	(502)		
Mitchell Rubber Products, Inc.	(629)	(629)		
Ginsey Home Solutions, Inc.	(800)	(800)		
Drew Foam Company, Inc.	(998)	(998)		
Quench Holdings Corp.	(1,648)	(1,648)		
SBS, Industries, LLC	(2,291)	(2,291)		
SOG Specialty K&T, LLC	(2,767)	(2,767)		
Other, net (<\$250 Net)	184	184		
<b>Total</b>	<b>\$ 24,804</b>	<b>\$ 1,690</b>	<b>\$ (17,374)</b>	<b>\$ 9,120</b>

(A) Venyu was sold in August 2013.

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During the three months ended September 30, 2013, we recorded net unrealized depreciation on investments in the aggregate amount of \$15.7 million, which included the reversal of \$17.4 million in aggregate unrealized appreciation, related to the Venyu exit. Excluding reversals, we had \$1.7 million in net unrealized appreciation for the three months ended September 30, 2013.

The realized gains and unrealized appreciation (depreciation) across our investments for the three months ended September 30, 2013, were as follows:

Excluding reversals, the primary changes in our net unrealized appreciation of \$1.7 million for the three months ended September 30, 2013, were due to increased equity valuations in several of our portfolio companies, primarily due to increased portfolio company performance and, to a lesser extent, an increase in certain comparable multiples used to estimate the fair value of our investments.

Over our entire investment portfolio, we recorded approximately \$2.0 million of net unrealized depreciation on our debt positions and \$0.5 million of net unrealized appreciation on our equity holdings for the three months ended September 30, 2014. At September 30, 2014, the fair value of our investment portfolio was less than our cost basis by approximately \$65.2 million, as compared to \$63.7 million at June 30, 2014, representing net unrealized depreciation of \$1.5 million for the three months ended September 30, 2014. 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 84.2% of cost as of September 30, 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.

### **Unrealized Appreciation on Other**

There was no unrealized appreciation on our Credit Facility recognized for the three months ended September 30, 2014. During the three months ended September 30, 2013, there was net unrealized appreciation of \$0.4 million on our Credit Facility. The Credit Facility was fair valued at \$87.8 million and \$61.7 million as of September 30 and March 31, 2014, respectively.

**Table of Contents****Comparison of the Six Months Ended September 30, 2014, to the Six Months Ended September 30, 2013**

	Six Months Ended September 30,			
	2014	2013	\$ Change	% Change
<b>INVESTMENT INCOME</b>				
Interest income	<b>\$ 16,974</b>	\$ 14,888	\$ 2,086	14.0%
Other income	<b>1,934</b>	3,869	(1,935)	(50.0)
Total investment income	<b>18,908</b>	18,757	151	0.8
<b>EXPENSES</b>				
Base management fee	<b>3,410</b>	3,110	300	9.6
Incentive fee	<b>2,266</b>	1,722	544	31.6
Administration fee	<b>444</b>	399	45	11.3
Interest and dividend expense	<b>2,883</b>	2,499	384	15.4
Amortization of deferred financing fees	<b>536</b>	499	37	7.4
Other	<b>1,294</b>	1,112	182	16.4
Expenses before credits from Adviser	<b>10,833</b>	9,341	1,492	16.0
Other credits to Adviser fees	<b>(988)</b>	(845)	(143)	(16.9)
Total expenses net of credits to fee	<b>9,845</b>	8,496	1,349	15.9
<b>NET INVESTMENT INCOME</b>	<b>9,063</b>	10,261	(1,198)	(11.7)
<b>REALIZED AND UNREALIZED (LOSS) GAIN ON:</b>				
Net realized (loss) gain on sale of investments	<b>(12)</b>	24,804	(24,816)	NM
Net unrealized appreciation (depreciation) on investments	<b>3,965</b>	(27,090)	31,055	NM
Net unrealized depreciation on other	<b>451</b>	445	6	1.3
Net gain (loss) on investments and other	<b>4,404</b>	(1,841)	6,245	NM
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 13,467</b>	\$ 8,420	\$ 5,047	59.9
<b>BASIC AND DILUTED PER COMMON SHARE:</b>				
Net investment income	<b>\$ 0.34</b>	\$ 0.39	\$ (0.05)	(12.8)
Net increase in net assets resulting from operations	<b>\$ 0.51</b>	\$ 0.32	\$ 0.19	59.4

*NM = Not Meaningful*

Total investment income increased by 0.8% for the six months ended September 30, 2014, as compared to the prior year period. This increase was primarily due an overall increase in interest income in the six months ended September 30, 2014, as a result of an increase in the size of our loan portfolio during the six months ended



September 30, 2014. This was partially offset by a decrease in other income during the six months ended September 30, 2014 as compared to the prior year period, due to success fee and dividend income resulting from our exit from Venyu during the six months ended September 30, 2013.

Portfolio Company	As of September 30, 2014		Six Months Ended September 30, 2014	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
Acme Cryogenics, Inc.	\$ 27,139	7.8%	\$ 848	4.5%
SOG Specialty Knives and Tools, LLC	23,989	6.9	1,366	7.2
Cambridge Sound Management, LLC <sup>(A)</sup>	20,175	5.8	6	0.0
Jackrabbit, Inc.	19,327	5.6	755	4.0
Edge Adhesives Holdings, Inc.	18,074	5.2	847	4.5
<b>Subtotal five largest investments</b>	<b>108,704</b>	<b>31.3</b>	<b>3,822</b>	<b>20.2</b>
Other portfolio companies	238,197	68.7	15,086	79.8
<b>Total investment portfolio</b>	<b>\$ 346,901</b>	<b>100.0%</b>	<b>\$ 18,908</b>	<b>100.0%</b>

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Interest income from our investments in debt securities increased 14.0% for the six months ended September 30, 2014, as compared to the prior year period. The level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted average yield. The weighted average principal balance of our interest-bearing investment portfolio during the six months ended September 30, 2014, was approximately \$269.2 million, compared to approximately \$236.4 million for the prior year period. This increase was primarily due to approximately \$92.9 million in new investments originated after September 30, 2013, including ADC, Behrens, Meridian, Head Country, Edge, TREC, and CSM. At September 30, 2014, loans to one portfolio company, Tread, were on non-accrual, with an aggregate weighted average principal balance of \$12.0 million. As of September 30, 2013, loans to two portfolio companies, ASH and Tread, were on non-accrual, with an aggregate weighted average principal balance of \$25.8 million during the six months ended September 30, 2013. The weighted average yield on our interest-bearing investments was 12.6% for the six months ended September 30, 2014 and 2013, excluding cash and cash equivalents and receipts recorded as other income. The weighted average yield varies from period to period, based on the current stated interest rate on interest-bearing investments.

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

Portfolio Company	As of September 30, 2013		Six Months Ended September 30, 2013	
	Fair Value	% of Portfolio	Investment Income	% of Total Investment Income
Acme Cryogenics, Inc.	\$ 27,771	9.7%	\$ 848	4.5%
Galaxy Tool Holding Corp.	24,156	8.4	1,065	5.7
SOG Specialty Knives and Tools, LLC	24,131	8.4	1,332	7.1
Schylling Investments, LLC <sup>(A)</sup>	20,000	7.0	312	1.7
Channel Technologies Group, LLC	19,642	6.8	926	4.9
<b>Subtotal five largest investment<sup>(B)</sup></b>	<b>115,700</b>	<b>40.3</b>	<b>4,483</b>	<b>23.9</b>
Other portfolio companies	171,512	59.7	14,274	76.1
<b>Total investment portfolio</b>	<b>\$ 287,212</b>	<b>100.0%</b>	<b>\$ 18,757</b>	<b>100.0%</b>

(A) New investment during the applicable period.

(B) We exited Venyu in August 2013. Investment income for Venyu for the six months ended September 30, 2013 was \$4.3 million, or 23.1% of total investment income.

Other income decreased 50.0% from the prior year period. During the six months ended September 30, 2014, other income primarily consisted of \$1.3 million of dividend income received from Mathey. During the six months ended September 30, 2013, other income primarily consisted of \$3.3 million in success fee and dividend income received in connection with the exit of Venyu.

**Expenses**

Total expenses, excluding any voluntary and irrevocable credits to the base management and incentive fees, increased 16.0% for the six months ended September 30, 2014, as compared to the prior year period, primarily due to an

increase in the base management fee, incentive fee and interest expense, as compared to the prior year period.

The base management fee increased for the six months ended September 30, 2014, as compared to the prior year period, as a result of the increased size of our portfolio over the respective periods. Additionally, an incentive fee of \$2.3 million was earned by the Adviser during the six months ended September 30, 2014, compared to \$1.7 million for the prior year period. The base management and incentive fees are computed quarterly, as described

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

	<b>Six Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Average gross assets subject to base management fee <sup>(A)</sup>	<b>\$ 341,000</b>	\$ 311,000
Multiplied by prorated annual base management fee of 2%	<b>1.0%</b>	1.0%
Base management fee <sup>(B)</sup>	<b>3,410</b>	3,110
Other credits to Advisor fees <sup>(B)</sup>	<b>(988)</b>	(845)
Net base management fee	<b>\$ 2,422</b>	\$ 2,265
Incentive fee <sup>(B)</sup>	<b>\$ 2,266</b>	\$ 1,722

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

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

Interest and dividend expense increased 15.4% for the six months ended September 30, 2014, as compared to the prior year period, primarily due to increased average borrowings under the Credit Facility. The average balance outstanding on our Credit Facility during the six months ended September 30, 2014, was \$62.7 million, as compared to \$37.1 million in the prior year period. The increase in average borrowings under the Credit Facility was partially offset by the decrease in interest rate due to an amendment of the Credit facility that occurred June 26, 2014.

<b>Portfolio Company</b>	<b>Six months ended September 30, 2014</b>			
	<b>Realized (Loss)</b>	<b>Unrealized Appreciation (Depreciation)</b>	<b>Reversal of Unrealized (Appreciation) Depreciation</b>	<b>Net Gain (Loss)</b>
Jackrabbit, Inc.	\$	\$ 6,364	\$	\$ 6,364
NDLI Inc.		4,464		4,464
Funko, LLC		3,445		3,445
Mathey Investments, Inc.		2,309		2,309
SBS, Industries, LLC		1,843		1,843
Edge Adhesives Holdings, Inc.		868		868
Alloy Die Casting Corp.		610		610
Drew Foam Company, Inc.		418		418
Frontier Packaging, Inc.		327		327

B-Dry, LLC	(262)			(262)
Tread Corp.	(283)			(283)
Quench Holdings Corp.	(303)			(303)
Country Club Enterprises, LLC	(781)			(781)
Channel Technologies Group, LLC	(1,012)			(1,012)
Ginsey Home Solutions, Inc.	(1,612)			(1,612)
Head Country Inc.	(2,243)			(2,243)
Mitchell Rubber Products, Inc.	(2,283)			(2,283)
Danco Acquisition Corp.	(2,511)			(2,511)
SOG Specialty K&T, LLC	(2,650)			(2,650)
Galaxy Tool Holding Corp.	(2,992)			(2,992)
Other, net (<\$250 Net)	(12)	249		237
<b>Total</b>	\$ (12)	\$ 3,965	\$	\$ 3,953

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**Table of Contents****Realized and Unrealized (Loss) Gain on Investments***Realized (Loss) Gain*

During the six months ended September 30, 2014, we recorded a realized loss of \$12 relating to post-closing adjustments on the previous investment exits. During the six months ended September 30, 2013, we recorded a realized gain of \$24.8 million related to the Venyu sale.

*Unrealized Appreciation (Depreciation)*

During the six months ended September 30, 2014, we recorded net unrealized appreciation on investments in the aggregate amount of \$4.0 million. The unrealized appreciation (depreciation) across our investments for the six months ended September 30, 2014, were as follows:

The primary changes in our net unrealized appreciation for the six months ended September 30, 2014, were due to an increase in equity valuations in several of our portfolio companies, primarily due to an increase portfolio company performance and increases in certain comparable multiples used to estimate the fair value of our investments.

During the six months ended September 30, 2013, we recorded net unrealized depreciation on investments in the aggregate amount of \$27.1 million, which included the reversal of \$17.4 million in aggregate unrealized appreciation, related to the Venyu sale. Excluding reversals, we had \$9.7 million in net unrealized depreciation for the six months ended September 30, 2013.

The realized gains and unrealized appreciation (depreciation) across our investments for the six months ended September 30, 2013, were as follows:

Portfolio Company	Six months ended September 30, 2013			
	Realized Gain	Unrealized (Depreciation) Appreciation	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Venyu Solutions, Inc. <sup>(A)</sup>	\$ 24,804	\$ (1,596)	\$ (17,374)	\$ 5,834
Galaxy Tool Holding Corp.		3,280		3,280
Jackrabbit, Inc.		3,261		3,261
Channel Technologies Group, LLC		3,152	2	3,154
Frontier Packaging, Inc.		1,852		1,852
Country Club Enterprises, LLC		1,584		1,584
Star Seed, Inc.		926		926
Acme Cryogenics, Inc.		430		430
Funko, LLC		396		396
Noble Logistics, Inc.		(383)		(383)
Tread Corp.		(1,000)		(1,000)
Precision Southeast, Inc.		(1,059)		(1,059)
Mitchell Rubber Products, Inc.		(1,554)		(1,554)
Drew Foam Company, Inc.		(2,166)		(2,166)
SBS, Industries, LLC		(2,808)		(2,808)

B-Dry, LLC	(3,512)	(3,512)
Ginsey Home Solutions, Inc.	(4,502)	(4,502)
SOG Specialty K&T, LLC	(5,691)	(5,691)
Other, net (<\$250 Net)	&nbs	