

GLADSTONE INVESTMENT CORPORATION\DE
Form 10-Q
November 05, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number: 814-00704

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

83-0423116
(I.R.S. Employer
Identification No.)

1521 WESTBRANCH DRIVE, SUITE 100
MCLEAN, VIRGINIA
(Address of principal executive offices)
(703) 287-5800

22102
(Zip Code)

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the issuer's Common Stock, \$0.001 par value per share, outstanding as of November 2, 2018, was 32,822,459.

GLADSTONE INVESTMENT CORPORATION

TABLE OF CONTENTS

PART

I. FINANCIAL INFORMATION:

Item 1. Financial Statements (Unaudited)

<u>Consolidated Statements of Assets and Liabilities as of September 30, 2018 and March 31, 2018</u>	2
<u>Consolidated Statements of Operations for the three and six months ended September 30, 2018 and 2017</u>	3
<u>Consolidated Statements of Changes in Net Assets for the six months ended September 30, 2018 and 2017</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended September 30, 2018 and 2017</u>	6
<u>Consolidated Schedules of Investments as of September 30, 2018 and March 31, 2018</u>	8
<u>Notes to Consolidated Financial Statements</u>	20

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

<u>Overview</u>	46
<u>Results of Operations</u>	52
<u>Liquidity and Capital Resources</u>	62

Item 3. Quantitative and Qualitative Disclosures About Market Risk 69

Item 4. Controls and Procedures 69

PART

II. OTHER INFORMATION:

Item 1. Legal Proceedings 70

Item 1A. Risk Factors 70

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 71

Item 3. Defaults Upon Senior Securities 71

Item 4. Mine Safety Disclosures 71

Item 5. Other Information 71

Item 6. Exhibits 72

SIGNATURES 73

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

	September 30, 2018	March 31, 2018
ASSETS		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of \$234,695 and \$220,087, respectively)	\$ 277,968	\$ 247,297
Affiliate investments (Cost of \$338,047 and \$343,247, respectively)	370,415	339,393
Control investments (Cost of \$21,512 and \$21,512 respectively)	16,734	12,457
Cash and cash equivalents	2,168	3,639
Restricted cash and cash equivalents	1,133	328
Interest receivable	2,088	3,532
Due from administrative agent	1,915	2,324
Deferred financing costs, net	2,137	976
Other assets, net	840	953
TOTAL ASSETS	\$ 675,398	\$ 610,899
LIABILITIES		
Borrowings:		
Line of credit at fair value (Cost of \$115,700 and \$107,000, respectively)	\$ 115,700	\$ 107,500
Secured borrowing	5,096	5,096
Total borrowings	120,796	112,596
Mandatorily redeemable preferred stock, \$0.001 par value, \$25 liquidation preference; 9,856,000 and 6,356,000 shares authorized; 5,290,000 and 5,566,000 shares issued and outstanding, respectively, net	128,144	135,615
Accounts payable and accrued expenses	1,619	916
Fees due to Adviser ^(A)	19,517	6,671
Fee due to Administrator ^(A)	337	317
Other liabilities	1,411	584
TOTAL LIABILITIES	\$ 271,824	\$ 256,699
Commitments and contingencies ^(B)		
NET ASSETS	\$ 403,574	\$ 354,200
ANALYSIS OF NET ASSETS		
Common stock, \$0.001 par value per share, 100,000,000 shares authorized, 32,822,459 and 32,653,635 shares issued and outstanding, respectively	\$ 33	\$ 33
Capital in excess of par value	329,782	330,661

Cumulative net unrealized appreciation of investments	70,863	14,301
Cumulative net unrealized appreciation of other		(500)
(Overdistributed) underdistributed net investment income	(12,263)	3,660
Accumulated net realized gain in excess of distributions	15,159	6,045
Total distributable earnings	73,759	23,506
TOTAL NET ASSETS	\$ 403,574	\$ 354,200
NET ASSET VALUE PER SHARE AT END OF PERIOD	\$ 12.30	\$ 10.85

- (A) Refer to Note 4 *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* for additional information.
- (B) Refer to Note 10 *Commitments and Contingencies* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	\$ 5,622	\$ 4,587	\$ 11,888	\$ 9,053
Affiliate investments	6,051	6,408	12,880	12,480
Control investments	212	210	421	416
Cash and cash equivalents	10	8	20	10
Total interest income	11,895	11,213	25,209	21,959
Dividend income				
Non-Control/Non-Affiliate investments	1,196	1,770	1,262	1,770
Affiliate investments				865
Total dividend income	1,196	1,770	1,262	2,635
Success fee income				
Non-Control/Non-Affiliate investments		149	124	2,158
Control investments			2,000	
Total success fee income		149	2,124	2,158
Total investment income	13,091	13,132	28,595	26,752
EXPENSES				
Base management fee ^(A)	3,275	2,554	6,386	5,070
Loan servicing fee ^(A)	1,674	1,485	3,414	3,049
Incentive fee ^(A)	7,125	1,295	14,711	2,467
Administration fee ^(A)	344	201	629	508
Interest expense on borrowings	1,526	754	3,268	1,483
Dividends on mandatorily redeemable preferred stock	2,317	2,251	4,568	4,502
Amortization of deferred financing costs and discounts	497	367	864	734
Professional fees	247	260	658	579
Other general and administrative expenses	2,319	626	2,972	1,698
Expenses before credits from Adviser	19,324	9,793	37,470	20,090
Credits to base management fee	(1,674)	(1,485)	(3,414)	(3,049)
Credits to fees from Adviser	(565)	(926)	(1,525)	(1,474)

Total expenses, net of credits to fees	17,085	7,382	32,531	15,567
NET INVESTMENT (LOSS) INCOME	(3,994)	5,750	(3,936)	11,185
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss):				
Non-Control/Non-Affiliate investments	745	37	14,531	978
Affiliate investments	(3,601)	(80)	(3,279)	144
Other	(1,687)		(1,687)	
Total net realized gain (loss)	(4,543)	(43)	9,565	1,122
Net unrealized appreciation (depreciation):				
Non-Control/Non-Affiliate investments	19,805	14,293	16,064	16,124
Affiliate investments	17,650	(4,945)	36,221	(2,610)
Control investments	1,039	(1,499)	4,277	(4,124)
Other	407		500	
Total net unrealized appreciation	38,901	7,849	57,062	9,390
Net realized and unrealized gain	34,358	7,806	66,627	10,512
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 30,364	\$ 13,556	\$ 62,691	\$ 21,697

(A) Refer to Note 4 *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

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

	Three Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
BASIC AND DILUTED PER COMMON SHARE:				
Net investment (loss) income	\$ (0.12)	\$ 0.18	\$ (0.12)	\$ 0.35
Net increase in net assets resulting from operations	\$ 0.93	\$ 0.42	\$ 1.91	\$ 0.68
WEIGHTED-AVERAGE SHARES OF COMMON STOCK				