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

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended March 31, 2019**

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

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

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

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|---|---|---|
| **Common Stock, $0.001 par value per share** | **GAIN** | **Nasdaq Global Select Market** |
| **6.250% Series D Cumulative Term Preferred Stock, $0.001 par value per share** | **GAINM** | **Nasdaq Global Select Market** |
| **6.375% Series E Cumulative Term Preferred Stock, $0.001 par value per share** | **GAINL** | **Nasdaq Global Select Market** |

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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, anon-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 Act). YES ☐ NO ☒

The aggregate market value of the voting stock held by non-affiliates of the Registrant on September 30, 2018, based on the closing price on September 28, 2018 (the last business day before September 30, 2018) of $11.43 on the Nasdaq Global Select Market, was $365,723,458. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates. There were 32,822,459 shares of the Registrant's Common Stock, $0.001 par value, outstanding as of May 10, 2019.

**Documents Incorporated by Reference.** Portions of the Registrant's definitive proxy statement relating to the Registrant's 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K as indicated herein. Such proxy statement will be filed with the Securities and Exchange Commission no later than 120 days following the end of the Registrant's fiscal year ended March 31, 2019.

**GLADSTONE INVESTMENT CORPORATION**
**FORM 10-K FOR THE FISCAL YEAR ENDED**
**MARCH 31, 2019**

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## FORWARD-LOOKING STATEMENTS

**All statements contained herein, other than historical facts, may constitute "forward-looking statements." These statements may relate to, among other things, our future operating results, our business prospects and the prospects of our portfolio companies, actual and potential conflicts of interest with Gladstone Management Corporation (the "Adviser") and its affiliates, the use of borrowed money to finance our investments, the adequacy of our financing sources and working capital, and our ability to co-invest, among other factors. In some cases, you can identify forward-looking statements by terminology such as "estimate," "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "project," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative or variations of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include: (1) changes in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, David Dullum, or Terry Lee Brubaker; (4) changes in our investment objectives and strategy; (5) availability, terms (including the possibility of interest rate volatility) and deployment of capital; (6) changes in our industry, interest rates, exchange rates, regulation, or the general economy; (7) our business prospects and the prospects of our portfolio companies; (8) the degree and nature of our competition; (9) changes in governmental regulation, tax rates and similar matters; (10) our ability to exit investments in a timely manner; (11) our ability to maintain our qualification as a regulated investment company and as a business development company; and (12) those factors described in Item 1A. *"Risk Factors"* of this Annual Report on Form 10-K (this "Annual Report"). We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Actual results could differ materially from those anticipated in our forward-looking statements and future results could differ materially from our historical performance. Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Annual Report on Form 10-K. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events, or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed, or in the future may file, with the U.S. Securities and Exchange Commission (the "SEC"), including subsequent annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.**

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

## PART I

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

## ITEM 1. BUSINESS

### Overview

#### *Organization*

We were incorporated under the General Corporation Law of the State of Delaware on February 18, 2005. On June 22, 2005, we completed our initial public offering and commenced operations. We operate as an externally managed, closed-end, non-diversified management investment company and have elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). For 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"). To continue to qualify as a RIC for U.S. federal income tax purposes and obtain favorable RIC tax treatment, we must meet certain requirements, including certain minimum distribution requirements. From our initial public offering in 2005 and through March 31, 2019, we made 165 consecutive monthly distributions to common stockholders.

Shares of our common stock, 6.250% Series D Cumulative Term Preferred Stock ("Series D Term Preferred Stock"), and 6.375% Series E Cumulative Term Preferred Stock ("Series E Term Preferred Stock") are traded on the Nasdaq Global Select Market ("Nasdaq") under the trading symbols "GAIN," "GAINM," and "GAINL," respectively.

***Investment Adviser and Administrator***

We are externally managed by the Adviser, an affiliate of ours and an SEC registered investment adviser, pursuant to an investment advisory and management agreement (the "Advisory Agreement"). We have also entered into an administration agreement (the "Administration Agreement") with Gladstone Administration, LLC (the "Administrator"), an affiliate of ours and the Adviser. Each of the Adviser and the Administrator are privately-held companies that are indirectly owned and controlled by David Gladstone, our chairman and chief executive officer. Mr. Gladstone and Terry Lee Brubaker, our vice chairman and chief operating officer, also serve on the board of directors of the Adviser, the board of managers of the Administrator, and as executive officers of the Adviser and the Administrator. The Administrator employs, among others, our chief financial officer and treasurer, chief valuation officer, chief compliance officer, general counsel and secretary (who also serves as the president, general counsel and secretary of the Administrator) and their respective staffs. The Adviser and Administrator have extensive experience in our lines of business and also provide investment advisory and administrative services, respectively, to our affiliates, including: Gladstone Commercial Corporation ("Gladstone Commercial"), a publicly-traded real estate investment trust; Gladstone Capital Corporation ("Gladstone Capital"), a publicly-traded BDC and RIC; and Gladstone Land Corporation, a publicly-traded real estate investment trust (together with "Gladstone Commercial" and "Gladstone Capital," collectively the "Affiliated Public Funds"). In the future, the Adviser and Administrator may provide investment advisory and administrative services, respectively, to other funds and companies, both public and private.

The Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002 and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Administrator was organized as a limited liability company under the laws of the State of Delaware on March 18, 2005. The Adviser and Administrator are headquartered in McLean, Virginia, a suburb of Washington, D.C. The Adviser also has offices in several other states.

***Investment Objectives and Strategy***

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the U.S. Our investment objectives are to: (i) 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 (ii) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses, generally in combination with the aforementioned debt securities, that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our investment objectives, our investment strategy is to invest in several categories of debt and equity securities, with individual investments generally totaling up 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 portfolio over time will consist of approximately 75% in debt securities and 25% in equity securities, at cost. As of March 31, 2019, our investment portfolio was made up of 75.1% in debt securities and 24.9% in equity securities, at cost.

We focus on investing in lower middle market private businesses (which we generally define as private companies with annual earnings before interest, taxes, depreciation and amortization ("EBITDA") of $3 million to $20 million) ("Lower Middle Market") in the U.S. that meet certain criteria, including, the following: the sustainability of the business' free cash flow and its ability to grow it over time, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the portfolio company, reasonable capitalization of the portfolio company, including an ample equity contribution or cushion based on prevailing enterprise valuation multiples, and the potential to realize appreciation and gain liquidity in our equity position, if any. We anticipate that liquidity in our equity position will be achieved through a merger, acquisition, or recapitalization of the portfolio company, a public offering of the portfolio company's stock or, to a lesser extent, by exercising our right to require the portfolio company to repurchase our warrants, as applicable, though there can be no assurance that we will always have these rights. We invest in portfolio companies that need funds for growth capital, to finance acquisitions, including management buyouts, recapitalize or, to a lesser extent, refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises.

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

In general, our investments in debt securities have a term of five years, accrue interest at variable rates (based on the one-month London Interbank Offered Rate ("LIBOR")) and, to a lesser extent, at fixed rates. As of March 31, 2019, our loan portfolio consisted of 97.4% variable rate loans with floors and 2.6% fixed rate loans based on the total principal balance of all outstanding debt investments. We seek debt instruments that pay interest monthly or, at a minimum, quarterly, and which may include a yield enhancement such as a success fee or, to a lesser extent, 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 portfolio company. Some debt securities may have deferred interest whereby some portion of the interest payment is added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called "paid-in-kind" ("PIK") interest. As of March 31, 2019, we did not have any securities with a PIK feature.

Typically, our investments in equity securities take the form of common stock, preferred stock, limited liability company interests, or warrants or options to purchase any of the foregoing. Often, these equity investments occur in connection with our original investment, buyouts and recapitalizations of a business, or refinancing existing debt. From our initial public offering in 2005 through March 31, 2019, we made investments in 49 companies, excluding investments in syndicated loans.

We expect that our investment portfolio will continue to primarily include the following three categories of investments in private companies in the U.S.:

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

Under the 1940 Act, we may not acquire any asset other than assets of the type listed in Section 55 of the 1940 Act, which are referred to as "qualifying assets" and generally include each of the investment types listed above, unless, at the time the acquisition is made, qualifying assets (other than certain assets related to our operations) represent at least 70.0% of our total assets. See "*—Regulation as a BDC — Qualifying Assets*" for a discussion of the types of qualifying assets in which we are permitted to invest pursuant to Section 55(a) of the 1940 Act.

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

***Investment Policies***

We seek to achieve a high level of current income and capital gains through investments in secured debt securities and preferred and common stock that we generally acquire in connection with buyouts and other recapitalizations. The following investment policies, along with the investment objectives, may not be changed without the approval of our board of directors (our "Board of Directors"), a majority of whom are not "interested persons" as defined in Section 2(a)(19) of the 1940 Act:

- We will at all times conduct our business so as to retain our status as a BDC. In order to retain that status, we must be operated for the purpose of investing in certain categories of qualifying assets. In addition, we may not acquire any assets (other than non-investment assets necessary and appropriate to our operations as a BDC or qualifying assets) if, after giving effect to such acquisition, the value of our "qualifying assets" is less than 70% of the value of our total assets. We anticipate that the securities we seek to acquire will generally be qualifying assets.

- We will at all times endeavor to conduct our business so as to retain our status as a RIC under the Code. To do so, we must maintain our status as a BDC and meet income source, asset diversification and annual distribution requirements. We may issue senior securities, such as debt or preferred stock, to the extent permitted by the 1940 Act for the purpose of making investments, to fund share repurchases, or for temporary emergency or other purposes.

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

*Investment Concentrations*

As of March 31, 2019, our investment portfolio consisted of investments in 30 portfolio companies located in 16 states across 16 different industries with an aggregate fair value of $624.2 million. Our investments in Nth Degree, Inc. (“Nth Degree”), J.R. Hobbs Co. – Atlanta, LLC (“J.R. Hobbs”), Brunswick Bowling Products, Inc. (“Brunswick”), Counsel Press, Inc. (“Counsel Press”), and Pioneer Square Brands, Inc. (“Pioneer”) represented our five largest portfolio investments at fair value and collectively comprised $227.8 million, or 36.4%, of our total investment portfolio at fair value as of March 31, 2019. The following table summarizes our investments by security type as of March 31, 2019 and 2018:

| | March 31, 2019 | | | | March 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | Fair Value | | Cost | | Fair Value | |
| Secured first lien debt | **$350,965** | **59.5%** | **$331,090** | **53.0%** | $321,303 | 54.9% | $305,856 | 51.0% |
| Secured second lien debt | **91,851** | **15.6** | **75,293** | **12.1** | 110,484 | 18.9 | 97,339 | 16.2 |
| Total debt | **442,816** | **75.1** | **406,383** | **65.1** | 431,787 | 73.8 | 403,195 | 67.2 |
| Preferred equity | **144,622** | **24.5** | **195,377** | **31.3** | 150,708 | 25.8 | 167,150 | 28.0 |
| Common equity/equivalents | **2,251** | **0.4** | **22,412** | **3.6** | 2,351 | 0.4 | 28,802 | 4.8 |
| Total equity/equivalents | **146,873** | **24.9** | **217,789** | **34.9** | 153,059 | 26.2 | 195,952 | 32.8 |
| **Total investments** | **$589,689** | **100.0%** | **$624,172** | **100.0%** | $584,846 | 100.0% | $599,147 | 100.0% |

Our investments at fair value consisted of the following industry classifications as of March 31, 2019 and 2018:

| | March 31, 2019 | | March 31, 2018 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Diversified/Conglomerate Services | **$212,817** | **34.1%** | $136,719 | 22.8% |
| Home and Office Furnishings, Housewares, and Durable Consumer Products | **102,271** | **16.4** | 128,529 | 21.5 |
| Diversified/Conglomerate Manufacturing | **41,235** | **6.6** | 29,942 | 5.0 |
| Leisure, Amusement, Motion Pictures, Entertainment | **40,912** | **6.6** | 43,048 | 7.2 |
| Personal and Non-Durable Consumer Products (Manufacturing Only) | **40,130** | **6.4** | 42,836 | 7.1 |
| Healthcare, Education, and Childcare | **30,022** | **4.8** | — | — |
| Machinery (Non-agriculture, Non-construction, Non-electronic) | **28,905** | **4.6** | 21,915 | 3.7 |
| Containers, Packaging, and Glass | **22,009** | **3.5** | 21,387 | 3.6 |
| Farming and Agriculture | **19,197** | **3.1** | 21,483 | 3.6 |
| Chemicals, Plastics, and Rubber | **16,641** | **2.7** | 55,740 | 9.3 |
| Cargo Transport | **15,490** | **2.5** | 15,816 | 2.6 |
| Telecommunications | **15,225** | **2.4** | 14,000 | 2.3 |
| Aerospace and Defense | **13,309** | **2.1** | 12,457 | 2.1 |
| Beverage, Food, and Tobacco | **11,937** | **1.9** | 11,605 | 1.9 |
| Automobile | **9,716** | **1.6** | 13,830 | 2.3 |
| Textiles and Leather | — | — | 19,407 | 3.2 |
| Other < 2.0% | **4,356** | **0.7** | 10,433 | 1.8 |
| **Total investments** | **$624,172** | **100.0%** | $599,147 | 100.0% |

Our investments at fair value were included in the following U.S. geographic regions as of March 31, 2019 and 2018:

| | March 31, 2019 | | March 31, 2018 | |
|---|---|---|---|---|
| **Location** | **Fair Value** | **Percentage of Total Investments** | **Fair Value** | **Percentage of Total Investments** |
| South | **$262,386** | **42.0%** | $221,725 | 37.0% |
| West | **177,599** | **28.5** | 133,774 | 22.3 |
| Northeast | **129,430** | **20.7** | 188,911 | 31.5 |
| Midwest | **54,757** | **8.8** | 54,737 | 9.2 |
| **Total investments** | **$624,172** | **100.0%** | $599,147 | 100.0% |

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

## Investment Process

### *Overview of Investment and Approval Process*

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

### *Prospective Portfolio Company Characteristics*

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

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

- *Liquidation Value of Assets:* The projected liquidation value of the assets, if any, is an important factor in our investment analysis in collateralizing our debt securities.

***Extensive Due Diligence***

The Due Diligence Team conducts what we believe are extensive due diligence investigations of our prospective portfolio companies and investment opportunities. The due diligence investigation may begin with a review of publicly available information followed by in-depth business analysis, including, some or all of the following:

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

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

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

***Investment Structure***

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

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

We expect to hold most of our debt investments until maturity or repayment. From time to time, we may sell our investments (including our equity investments) earlier if a liquidity event takes place, such as a recapitalization of a portfolio company, an initial public offering, or a sale to a third party, including strategic buyers, private equity funds, or existing investors in the portfolio company, and which may be privately negotiated transactions.

***Competitive Advantages***

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

*Management Expertise*

Our Adviser has a separate investment committee for the Company and each of the Affiliated Public Funds, although Messrs. Gladstone and Brubaker serve as members of the Adviser's investment committees for each of the Company and each of the Affiliated Public Funds. Messrs. Gladstone and Dullum have extensive experience in investing in Lower Middle Market companies and with operating in the BDC marketplace in general. Mr. Brubaker has substantial experience in acquisitions and operations of companies. These three individuals, who are part of our executive management team and comprise the Adviser's investment committee for the Company, dedicate a significant portion of their time to managing our investment portfolio. They have extensive experience providing capital to Lower Middle Market companies and have worked together at the Gladstone family of companies for more than ten years. In addition, we have access to the resources and expertise of the Adviser's investment professionals and support staff who possess a broad range of transactional, financial, managerial, and investment skills. See the additional discussion regarding management of portfolio companies by our Adviser below under "*—Ongoing Management of Investments and Portfolio Company Relationships."*

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

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

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

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

- Focusing on companies with attractive and sustainable market positions and cash flow;
- Investing in companies with experienced and established management teams;
- Engaging in extensive due diligence from the perspective of a long-term investor;
- Investing at lowprice-to-cash flow multiples; and

- Adopting flexible transaction structures by drawing on the experience of the investment professionals of the Adviser and its affiliates.

*Longer Investment Horizon*

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

*Flexible Transaction Structuring*

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

**Ongoing Management of Investments and Portfolio Company Relationships**

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

***Monitoring***

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

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

***Relationship Management***

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

- Management;

- Boards of directors;
- Financial sponsors;
- Capital partners;
- Auditors; and
- Advisers and consultants.

***Managerial Assistance and Services***

As a BDC, we make available significant managerial assistance, as defined in the 1940 Act, to our portfolio companies and provide other services (other than such managerial assistance) to such portfolio companies. Neither we, nor the Adviser, currently receive fees in connection with the managerial assistance we make available. At times, the Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance. Such services may include: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) a primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. The Adviser non-contractually, unconditionally, and irrevocably credits 100% of any fees received for such services against the base management fee that we would otherwise be required to pay to the Adviser, as discussed below in "—*Transactions with Related Parties – Investment Advisory and Management Agreement – Base Management Fee;"* however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser, primarily related to the valuation of portfolio companies.

Gladstone Securities also provides other services (such as investment banking and due diligence services) to certain of our portfolio companies and receives fees for the provision of such services, see "—*Transactions with Related Parties – Other Transactions*" below.

***Valuation Process***

The following is a general description of our investment valuation policy (the "Policy") (which has been approved by our Board of Directors) that the professionals of the Adviser and Administrator, with oversight and direction from our chief valuation officer, an employee of the Administrator that reports directly to our Board of Directors (collectively, the "Valuation Team"), use each quarter to determine the fair value of our investment portfolio. In accordance with the 1940 Act, our Board of Directors has the ultimate responsibility for reviewing and determining, in good faith, the fair value of our investments for which market quotations are not readily available based on the Policy. The Adviser values our investments in accordance with the requirements of the 1940 Act and accounting principles generally accepted in the U.S. ("GAAP"). There is no single standard for determining fair value (especially for privately-held businesses), as fair value depends upon the specific facts and circumstances of each individual investment. Each quarter, our Board of Directors reviews the Policy to determine if changes thereto are advisable and whether the Valuation Team has applied the Policy consistently. With respect to the valuation of our investment portfolio, the Valuation Team performs the following steps each quarter:

- Each investment is initially assessed by the Valuation Team using the Policy, which may include:
  - Obtaining fair value quotes or utilizing valuation inputs from third party valuation firms; and
  - Using techniques, such as total enterprise value, yield analysis, market quotes and other factors, including: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; timing of expected repayments; and the markets in which the portfolio company operates.

- Preliminary valuation conclusions are then discussed amongst the Valuation Team and with our management and documented for review by our Board of Directors. Written valuation recommendations and supporting material are sent to the Board of Directors in advance of the quarterly meetings.
- The Valuation Committee of the Board of Directors (comprised entirely of independent directors) meets to review the valuation recommendations and supporting materials, discusses the information provided by the Valuation Team, determines whether the Valuation Team has followed the Policy, determines whether the Valuation Team's recommended fair value is reasonable in light of the Policy, and reviews other facts and circumstances. Then, the Valuation Committee and chief valuation officer present the Valuation Committee's findings to the entire Board of Directors, so that the full Board of Directors may review and determine in good faith the fair value of investments in accordance with the Policy.

Fair value measurements of our investments may involve subjective judgment and estimates. Due to the uncertainty inherent in valuing these securities, the determinations of fair value may fluctuate from period to period and may differ materially from the values that could be obtained if a ready market for these securities existed. Our net asset value ("NAV") could be materially affected if the determinations regarding the fair value of our investments are materially different from the values that we ultimately realize upon our disposal of such securities. Our valuation policies, procedures and processes are more fully described under *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Investment Valuation."*

## Transactions with Related Parties

***Investment Advisory and Management Agreement***

Pursuant to our Advisory Agreement, we pay the Adviser certain fees as compensation for its services, consisting of a base management fee and an incentive fee, each as described below. On July 10, 2018, our Board of Directors, including a majority of the directors who are not parties to the Advisory Agreement or interested persons of either party, approved the annual renewal of the Advisory Agreement through August 31, 2019. Our Board of Directors considered the following factors as the basis for its decision to renew the Advisory Agreement: (1) the nature, extent and quality of services provided by the Adviser to our stockholders; (2) the investment performance of the Company and the Adviser, (3) the costs of the services to be provided and profits to be realized by the Adviser and its affiliates from the relationship with the Company, (4) the extent to which economies of scale will be realized as the Company and the Affiliated Public Funds grow and whether the fee level under the Advisory Agreement reflects the economies of scale for the Company's investors, (5) the fee structure of the advisory and administrative agreements of comparable funds, and (6) indirect profits to the Adviser created through the Company and (7) in light of the foregoing considerations, the overall fairness of the advisory fee paid under the Advisory Agreement.

*Base Management Fee*

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

Additionally, as stated above, pursuant to the requirements of the 1940 Act, the Adviser makes available significant managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance. Such services may include: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) a primary role in interviewing, vetting and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. The Adviser non-contractually, unconditionally, and irrevocably credits 100% of any fees received for such services against the base management fee that we would otherwise be required to pay to the Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser, primarily related to the valuation of portfolio companies. Loan servicing fees that are payable to the Adviser pursuant to our Fifth Amended and Restated Credit Agreement, as amended (the "Credit Facility"), are also 100% credited against the base management fee as discussed below "*—Loan Servicing Fee Pursuant to Credit Facility.*"

*Incentive Fee*

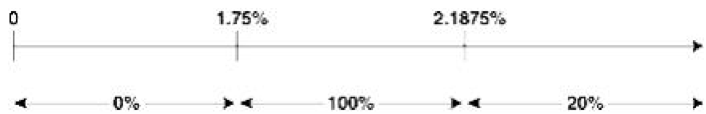
The incentive fee payable to the Adviser under our Advisory Agreement consists of two parts: an income-based incentive fee and a capital gains-based incentive fee.

The income-based incentive fee rewards the Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets, which we define as total assets less indebtedness and before taking into account any incentive fees payable or contractually due but not payable during the period, at the end of the immediately preceding calendar quarter, adjusted appropriately for any share issuances or repurchases during the period (the "Hurdle Rate"). The income-based incentive fee with respect to our pre-incentive fee net investment income is payable quarterly to the Adviser and is computed as follows:

- No incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the Hurdle Rate;
- 100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the Hurdle Rate but is less than 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter; and
- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter.

*Quarterly Incentive Fee Based on Net Investment Income*

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




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

The second part of the incentive fee is a capital gains-based incentive fee that is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date), and equals 20.0% of our realized capital gains, less any realized capital losses and unrealized depreciation, calculated as of the end of the preceding calendar year. The capital gains-based incentive fee payable to the Adviser is calculated based on (i) cumulative aggregate realized capital gains since our inception, less (ii) cumulative aggregate realized capital losses since our inception, less (iii) the entire portfolio's aggregate unrealized capital depreciation, if any, as of the date of the calculation. If this number is positive at the applicable calculation date, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. For calculation purposes, cumulative aggregate realized capital gains, if any, equals the sum of the excess between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the deficit between the net sales price of each investment, when sold, and the original cost of such investment since our inception. The entire portfolio's aggregate unrealized capital depreciation, if any, equals the sum of the deficit between the fair value of each investment security as of the applicable calculation date and the original cost of such investment security. We have not incurred capital gains-based incentive fees from inception through March 31, 2019, as aggregate unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

In accordance with GAAP, accrual of the capital gains-based incentive fee is determined as if our investments had been liquidated at their fair values as of the end of the reporting period. Therefore, GAAP requires that the capital gains-based incentive fee accrual consider the aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that any such unrealized capital appreciation will be realized in the future. Accordingly, a GAAP accrual is calculated at the end of the reporting period based on (i) cumulative aggregate realized capital gains since our inception, plus (ii) the entire portfolio's aggregate unrealized capital appreciation, if any, less (iii) cumulative aggregate realized capital losses since our inception, less (iv) the entire portfolio's aggregate unrealized capital depreciation, if any. If such amount is positive at the end of a reporting period, a capital gains-based incentive fee equal to 20.0% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years, is recorded, regardless of whether such amount is contractually due under the terms of the Advisory Agreement.

If such amount is negative, then there is no accrual for such period. During the years ended March 31, 2019 and 2018, we recorded capital gains-based incentive fees of $17.8 million and $4.4 million, respectively, which were not contractually due under the terms of the Advisory Agreement. There was no GAAP accrual of capital gains-based incentive fees for any year prior to March 31, 2018.

***Loan Servicing Fee Pursuant to Credit Facility***

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

***Administration Agreement***

We pay the Administrator pursuant to the Administration Agreement for our allocable portion of the Administrator's expenses incurred while performing services to us, which are primarily rent and salaries and benefits expenses of the Administrator's employees, including, our chief financial officer and treasurer, chief valuation officer, chief compliance officer, general counsel and secretary (who also serves as the Administrator's president, general counsel, and secretary), and their respective staffs.

Our allocable portion of the Administrator's expenses is generally derived by multiplying the Administrator's total expenses by the approximate percentage of time during the current quarter that the Administrator's employees performed services for us in relation to their time spent performing services for all companies serviced by the Administrator. On July 10, 2018, our Board of Directors, including a majority of the directors who are not parties to the Administration Agreement or interested persons of either party, approved the annual renewal of the Administration Agreement through August 31, 2019.

***Other Transactions***

Mr. Gladstone also serves on the board of managers of our affiliate, Gladstone Securities, a privately-held broker-dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation. Gladstone Securities is 100% indirectly owned and controlled by Mr. Gladstone and has provided other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which Gladstone Securities receives a fee. Any such fees paid by portfolio companies to Gladstone Securities do not impact the fees we pay to the Adviser or the non-contractual, unconditional, and irrevocable credits against the base management fee. Refer to Note 4— *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

## Material U.S. Federal Income Tax Considerations

This is a general summary of certain material U.S. federal income tax considerations applicable to us, to our qualification and taxation as a RIC for U.S. federal income tax purposes under Subchapter M of the Code and to the ownership and disposition of our shares. This summary does not purport to be a complete description of all of the tax considerations relating thereto. In particular, we have not described certain considerations that may be relevant to certain types of stockholders subject to special treatment under U.S. federal income tax laws. This summary does not discuss any aspect of state, local or foreign tax laws, or the U.S. estate or gift tax.

***RIC Status***

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

- *Business Development Company status:* At all times during the taxable year, we must maintain our status as a BDC.

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

***Failure to Qualify as a RIC***

If we are unable to qualify for treatment as a RIC, we would be subject to U.S. federal income tax on all of our taxable income at the regular corporate income tax rate and would be subject to any applicable state and local taxes, even if we distributed all of our Investment Company Taxable Income to our stockholders. We would not be able to deduct distributions to our stockholders, nor would we be required to make such distributions. Distributions would be taxable to our stockholders as ordinary dividend income to the extent of our current or accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends received deduction, if applicable. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's adjusted tax basis, and then as capital gain. If we fail to meet the RIC requirements for more than two consecutive years and then seek to requalify as a RIC, we generally would be subject to corporate-level U.S. federal income tax on any unrealized appreciation with respect to our assets unless we make a special election to pay corporate-level U.S. federal income tax on any such unrealized appreciation during the succeeding five-year period.

***Qualification as a RIC***

If we qualify as a RIC and meet the annual distribution requirement, we will not be subject to U.S. federal income tax on the portion of our Investment Company Taxable Income and net capital gain (realized net long-term capital gain in excess of realized net short-term capital loss) that we timely distribute (or are deemed to distribute) to our stockholders. We would, however, be subject to a 4% nondeductible federal excise tax if we do not distribute, actually or on a deemed basis, an amount at least equal to the sum of (i) 98% of our ordinary income for the calendar year, (ii) 98.2% of our net capital gains for the one-year period ending on October 31 of the calendar year and (iii) any income realized, but not distributed, in the preceding period (to the extent that income tax was not imposed on such amounts), less certain reductions, as applicable. For the calendar years ended December 31, 2018, 2017 and 2016, we incurred $0.3 million, $0.2 million and $0.4 million, respectively, in excise taxes. As of March 31, 2019, our capital loss carryforward was $0.

**Taxation of Our U.S. Stockholders**

***Distributions***

For any period during which we qualify as a RIC for U.S. federal income tax purposes, distributions to our stockholders attributable to our Investment Company Taxable Income generally will be taxable as ordinary income to our stockholders to the extent of our current or accumulated earnings and profits. We first allocate our earnings and profits to distributions to our preferred stockholders and then to distributions to our common stockholders based on priority in our capital structure. Any distributions in excess of our earnings and profits will first be treated as a return of capital to the extent of the stockholder's adjusted basis in his or her shares of stock and thereafter as capital gain. Distributions of our long-term capital gains, reported by us as such, will be taxable to our stockholders as long-term capital gains regardless of the stockholder's holding period of the stock and whether the distributions are paid in cash or invested in additional stock. Corporate U.S. stockholders generally are eligible for the 50% dividends received deduction with respect to dividends received from us, but only to the extent such amount is attributable to dividends received by us from taxable domestic corporations.

A RIC that has two or more classes of stock generally is required to allocate to each class proportionate amounts of each type of its income (such as ordinary income, capital gains, qualified dividend income and dividends qualifying for the dividends-received deduction) based upon the percentage of total distributions paid to each class for the tax year. Accordingly, we intend to allocate capital gain distributions, distributions of qualified dividend income, and distributions qualifying for the dividends-received deduction, if any, between our common shares and preferred shares in proportion to the total distributions paid to each class with respect to such tax year.

Any distribution declared by us in October, November or December of any calendar year, payable to our stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it were paid by us and received by our stockholders on December 31 of the previous year. In addition, we may elect (in accordance with Section 855(a) of the Code) to relate a distribution back to the prior taxable year if we (1) declare such distribution prior to the later of the extended due date for filing our return for that taxable year or the 15th day of the ninth month following the close of the taxable year, (2) make the election in that return, and (3) distribute the amount in the 12-month period following the close of the taxable year but not later than the first regular distribution payment of the same type following the declaration. Any such election will not alter the general rule that a stockholder will be treated as receiving a distribution in the taxable year in which the distribution is made, subject to the October, November, December rule described above. For the fiscal year ended March 31, 2019, Investment Company Taxable Income exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $16.0 million of the first distributions paid to common stockholders in the respective subsequent fiscal year as having been paid in the respective prior year. In addition, for the fiscal year ended March 31, 2019, net capital gains exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $13.2 million of the first distributions paid to common stockholders in the respective subsequent fiscal year as having been paid in the respective prior year.

If a common stockholder participates in our "opt in" dividend reinvestment plan, then the common stockholder will have their cash dividends and distributions automatically reinvested in additional shares of our common stock, rather than receiving cash dividends and distributions. Any distributions reinvested under the plan will be taxable to the common stockholder to the same extent, and with the same character, as if the common stockholder had received the distribution in cash. The common stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the dollar amount that would have been received if the U.S. stockholder had received the dividend or distribution in cash. The additional common shares will have a new holding period commencing on the day following the day on which the shares are credited to the common stockholder's account. The plan agent purchases shares in the open market in connection with the obligations under the plan. We do not have a dividend reinvestment plan for our preferred stockholders.

We may distribute our net long-term capital gains, if any, in cash or elect to retain some or all of such gains, pay taxes at the U.S. federal corporate-level income tax rate on the amount retained, and designate the retained amount as a "deemed distribution." If we elect to retain net long-term capital gains and deem them distributed, each U.S. common stockholder will be treated as if they received a distribution of their pro rata share of the retained net long-term capital gain and the U.S. federal income tax paid. As a result, each U.S. common stockholder will (i) be required to report their pro rata share of the retained gain on their tax return as long-term capital gain, (ii) receive a refundable tax credit for their pro rata share of federal tax paid by us on the retained gain, and (iii) increase the tax basis of their shares of common stock by an amount equal to the deemed distribution less the tax credit. In order to use the deemed distribution approach, we must provide written notice to our common stockholders prior to the expiration of 60 days after the close of the relevant taxable year. For the year ended March 31, 2019, we elected to retain $50.0 million, or $1.52 per common share, of net long-term capital gains and to treat them as deemed distributions to common stockholders. We incurred $10.5 million, or $0.32 per common share, of U.S. federal income taxes on behalf of common stockholders related to the retention of capital gains, which are included in Taxes on deemed distribution of long-term capital gains on our accompanying *Consolidated Statements of Operations*. We had no deemed distributions during the years ended March 31, 2018 and 2017.

***Sale of Our Shares***

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

***Backup Withholding and Other Required Withholding***

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

The Foreign Account Tax Compliance Act imposes a U.S. federal withholding tax on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification obligation requirements are satisfied.

***Information Reporting***

We will send to each of our U.S. stockholders, after the end of each calendar year, a notice providing, on a per share and per distribution basis, the amounts includible in the U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the U.S. federal tax status of each year's distributions will generally be reported to the IRS (including the amount of dividends, if any, eligible for the preferential rates applicable to long-term capital gains).

**Regulation as a BDC**

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

We intend to conduct our business so as to retain our status as a BDC. A BDC may use capital provided by public stockholders and from other sources to make long-term investments in private companies. A BDC provides stockholders the ability to retain the liquidity of a publicly-traded stock, while sharing in the possible benefits, if any, of investing in primarily privately owned companies. In general, a BDC must have been organized and have its principal place of business in the U.S. and must be operated for the purpose of making investments in qualifying assets, as described in Sections 55(a)(1) through (a)(3) of the 1940 Act.

***Qualifying Assets***

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

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

  (a) Is organized under the laws of, and has its principal place of business in, any state or states in the U.S.;

  (b) Is not an investment company (other than a small business investment company wholly owned by the BDC or otherwise excluded from the definition of investment company); and

  (c) Satisfies one of the following:

    (i) It does not have any class of securities with respect to which a broker or dealer may extend margin credit;

    (ii) It is controlled by the BDC and for which an affiliate of the BDC serves as a director;

    (iii) It has total assets of not more than $4 million and capital and surplus of not less than $2 million;

(iv) It does not have any class of securities listed on a national securities exchange; or

(v) It has a class of securities listed on a national securities exchange, with an aggregate market value of outstanding voting and non-voting equity of less than $250 million.

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

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

As of March 31, 2019, 99.6% of our assets were qualifying assets.

***Asset Coverage***

Pursuant to Section 61(a)(3) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of senior securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of senior securities that is stock. In either case, we may only issue such senior securities if such class of senior securities, after such issuance, has an asset coverage, as defined in Section 18(h) of the 1940 Act, of at least 150% (200% prior to April 10, 2019).

In addition, our ability to pay dividends or distributions (other than dividends payable in our common stock) to holders of any class of our capital stock would be restricted if our senior securities representing indebtedness fail to have an asset coverage of at least 150% (measured at the time of declaration of such distribution and accounting for such distribution). The 1940 Act does not apply this limitation to privately arranged debt that is not intended to be publicly distributed, unless this limitation is specifically negotiated by the lender. In addition, our ability to pay dividends or distributions (other than dividends payable in our common stock) to our common stockholders would be restricted if our senior securities that are stock fail to have an asset coverage of at least 150% (measured at the time of declaration of such distribution and accounting for such distribution). If the value of our assets declines, we might be unable to satisfy these asset coverage requirements. To satisfy the 150% 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 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 costs will not be available for distributions to our stockholders. If we are unable to regain the requisite asset coverage through these methods, we may be forced to suspend the payment of such dividends or distributions.

***Significant Managerial Assistance***

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

**Code of Ethics**

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

**Compliance Policies and Procedures**

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

**Staffing**

We do not currently have any employees and do not expect to have any employees in the foreseeable future. Currently, services necessary for our business are provided by individuals who are employees of the Adviser and the Administrator pursuant to the terms of the Advisory Agreement and the Administration Agreement, respectively. No employee of the Adviser or the Administrator will dedicate all of his or her time to us. However, we expect that 20 to 25 full-time employees of the Adviser and the Administrator will spend substantial time on our matters during the remainder of calendar year 2019 and all of calendar year 2020. To the extent we acquire more investments, we anticipate that the number of employees of the Adviser and the Administrator who devote time to our matters will increase.

As of April 30, 2019, the Adviser and Administrator collectively had 69 full-time employees. A breakdown of these employees is summarized by functional area in the table below:

| Number of Individuals | Functional Area |
|---|---|
| 11 | Executive management |
| 23 | Accounting, administration, compliance, human resources, legal, and treasury |
| 35 | Investment management, portfolio management, and due diligence |

**Available Information**

We file with or furnish to the SEC copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information meeting the information requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and make such reports and any amendments thereto available free of charge through the investor relations section of our website at www.GladstoneInvestment.com as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. Information contained on our website is not incorporated into this Annual Report. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

## ITEM 1A. RISK FACTORS

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

### *Risks Related to the Economy*

*Market conditions could negatively impact our business, results of operations, financial condition, and cash flows.*

The market in which we operate is affected by a number of factors that are largely beyond our control but can nonetheless have a potentially significant, negative impact on us. These factors include, among other things:

- Changes in interest rates and credit spreads;
- The availability of credit, including the price, terms and conditions under which it can be obtained;
- The quality, pricing, and availability of suitable investments and losses with respect to our investments;
- The ability to obtain accurate market-based valuations;
- Investment values relative to the value of the underlying assets;
- Prepayment rates, delinquency rates and legislative / regulatory changes with respect to our investments;
- Competition;
- The actual and perceived state of the economy and public capital markets generally;
- The national and global political environment, including foreign relations and trading policies;
- The impact of potential changes to the tax code; and
- The attractiveness of other types of investments relative to investments in Lower Middle Market companies generally.

Changes in these factors are difficult to predict, and a change in one factor could affect other factors, which could result in adverse effects to our business, results of operations, financial condition, and cash flows.

*Volatility in the capital markets may make it more difficult to raise capital and may adversely affect the valuations of our investments.*

Given the volatility and dislocation that the capital markets have experienced from time to time, many BDCs have faced, and may in the future face, a challenging environment in which to raise capital. We may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition, results of operations, and cash flows. In addition, significant changes in the capital markets have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition, results of operations, or cash flows.

*Market interest rates may have an effect on the value of our securities.*

One of the factors that will influence the price of our securities will be the distribution yield on our securities (as a percentage of the price of our securities) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our securities to expect a higher distribution yield. In addition, higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. As a result, higher market interest rates could cause the market price of our securities to decrease.

*Rising interest rates may negatively impact our investments and have an adverse effect on our business, financial condition, results of operations, and cash flows.*

In recent years, the Federal Reserve Board (the "Fed") has incrementally raised the target range for the federal funds rate, with additional increases possible over the next year. As interest rates increase, generally, the cost of borrowing increases, affecting our ability to make new investments on favorable terms or at all. More generally, interest rate fluctuations and changes in credit spreads on floating rate loans may have a negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on our rate of return on invested capital, our net investment income, our NAV and the market price of our securities. A substantial portion of our debt investments have variable interest rates that reset periodically and are generally based on LIBOR, so an increase in interest rates from the current interest rate may make it more difficult for our portfolio companies to service their obligations under the debt investments that we hold. To the extent that interest rates increase, this may negatively impact the operating performance of our portfolio companies due to increasing debt service obligations and, therefore, may affect our results of operations. In addition, to the extent that an increase in interest rates makes it difficult or impossible to make payments on outstanding indebtedness to us or other financial sponsors or refinance debt that is maturing in the near term, some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection. There can be no guaranty the Fed will raise rates at the gradual pace they originally proposed, nor can there be any assurance that markets will not adversely react to rate increases. The increase in interest rates could have a negative effect on our investments, which could negatively impact our operating results, financial condition, and cash flows.

*We may experience fluctuations in our quarterly and annual results based on the impact of inflation in the U.S.*

The majority of our portfolio companies are in industries that are directly impacted by inflation, such as consumer goods and services and manufacturing. Our portfolio companies may not be able to pass on to customers increases in their costs of operations which could greatly affect their operating results, impacting their ability to service our loans. In addition, any projected future decreases in our portfolio companies' operating results due to inflation could adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future unrealized losses and therefore reduce our NAV.

***Risks Related to Our Investments***

*We operate in a highly competitive market for investment opportunities.*

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

*Our investments in Lower Middle Market portfolio companies are extremely risky and could cause you to lose all or a part of your investment.*

Investments in Lower Middle Market portfolio companies are subject to a number of significant risks including the following:

- *Lower Middle Market businesses are likely to be more significantly impacted in economic downturns than larger businesses* Our portfolio companies may have fewer resources than larger businesses, and any economic downturns or recessions are more likely to have a material adverse effect on them. In the event that the economy contracts, it is likely that the financial results of Lower Middle Market businesses, like those in which we invest, could experience deterioration or limited growth from current levels, which could ultimately lead to difficulty in meeting their debt service requirements and an increase in defaults. Consequently, if one of our portfolio companies is adversely impacted by a recession, its ability to repay our loan(s) or engage in a liquidity event, such as a sale, recapitalization or initial public offering would be diminished.

- *Lower Middle Market businesses may have limited financial resources and may not be able to repay the loans we make to them.* Our strategy includes providing financing to portfolio companies that typically do not have readily available access to financing. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the portfolio companies to repay their loans to us upon maturity. A borrower's ability to repay its loan(s) may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. Deterioration in a borrower's financial condition and prospects usually will be accompanied by deterioration in the value of any collateral and a reduction in the likelihood of realizing on any guaranties we may have obtained from the borrower's management. As of March 31, 2019, certain loans to five portfolio companies were on non-accrual status with an aggregate debt cost basis of $68.3 million, or 15.4% of the cost basis of all debt investments in our portfolio. While we are working with these portfolio companies to improve their profitability and cash flows, there can be no assurance that our efforts will prove successful. Although we will generally seek to be a secured first lien lender to a borrower, in some of our loans we expect to be subordinated to a senior lender and our security interest in any collateral would, accordingly, likely be second lien and subordinate to another lender's security interest.
- *Lower Middle Market businesses typically have narrower product lines and smaller market shares than large businesses.* Our target portfolio companies tend to be more vulnerable to competitors' actions and market conditions, as well as general economic downturns. In addition, our portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.
- *There is generally little or no publicly available information about these businesses.* Because we seek to invest in privately owned businesses, there is generally little or no publicly available operating and financial information about our potential portfolio companies. As a result, we rely on our officers, the Adviser and its employees, Gladstone Securities and consultants to perform due diligence investigations of these portfolio companies, their operations, and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigations to make a well-informed investment decision.
- *Lower Middle Market businesses generally have less predictable operating results.* We expect that our portfolio companies may have significant variations in their operating results, may from time to time be exposed to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may otherwise have a weak financial position or may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders. A borrower's failure to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on its senior credit facility, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the borrower's ability to repay our loan(s) would be jeopardized.
- *Lower Middle Market businesses are more likely to be dependent on one or two persons.* Typically, the success of a Lower Middle Market business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us.
- *Lower Middle Market businesses may have limited operating histories.* While we intend to continue to target stable companies with proven track records, we may make loans to new companies that meet our other investment criteria. Portfolio companies with limited operating histories will be exposed to all of the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.
- *Debt securities of Lower Middle Market companies typically are not rated by a credit rating agency.* Typically, a Lower Middle Market business cannot or will not expend the resources to have their debt securities rated by a credit rating agency. We expect that most, if not all, of the debt securities we acquire will be unrated. Investors should assume that these loans would be at rates below what is today considered "investment grade" quality. Investments rated below investment grade are often referred to as high yield securities or junk bonds and may be considered high risk as compared to investment grade debt instruments.

- *Lower Middle Market companies may be highly leveraged.* Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

*Because the loans we make and equity securities we invest in are not publicly traded, there is uncertainty regarding the value of our privately held securities that could adversely affect our determination of our NAV.*

Substantially all of our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has ultimate responsibility for reviewing and determining in good faith the fair value of our investments for which market quotations are not readily available, based on the Policy. Our Board of Directors reviews valuation recommendations that are provided by the Valuation Team. In valuing our investment portfolio, several techniques are used, including, a total enterprise value approach, a yield analysis, and market quotes. Currently, ICE Data Pricing and Reference Data, LLC (formerly Standard and Poor's Securities Evaluations, Inc.) provides estimates of fair value on generally all of our debt investments that are not valued using total enterprise value ("TEV") and we use another independent valuation firm to provide valuation inputs for our significant equity investments, which are generally valued using TEV, including earnings multiple ranges, as well as other information. In addition to these techniques, inputs and information, other factors are considered when determining fair value of our investments, including: the nature and realizable value of the collateral, including external parties' guaranties; any relevant offers or letters of intent to acquire the portfolio company; timing of expected loan repayments; and the markets in which the portfolio company operates. Refer to *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policy — Investment Valuation"* for additional information on our valuation policies, procedures, and processes.

Fair value measurements of our investments may involve subjective judgments and estimates and, due to the uncertainty inherent in valuing these securities, the determination of fair value may fluctuate from period to period and may differ materially from the values that could be obtained if a ready market for these securities existed. Additionally, changes in the market environment and other events that may occur over the life of the investment may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned.

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

*The valuation process for certain of our portfolio holdings creates a conflict of interest.*

A substantial portion of our portfolio investments are securities for which market quotations are not readily available. As a result, our Board of Directors determines the fair value of these securities in good faith pursuant to the Policy. In connection with that determination, our Valuation Team prepares portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. The participation of our Adviser's investment professionals in our valuation process and Mr. Gladstone's pecuniary interest in our Adviser may result in a conflict of interest, as the management fees that we pay our Adviser are based on our average gross assets, less uninvested cash or cash equivalents from borrowings, and adjusted appropriately for any share issuances or repurchases during the period.

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

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

Due to the uncertainty inherent in valuing these securities, the Adviser's determinations of fair value may differ materially from the values that could be obtained if a ready market for these securities existed. Our NAV could be materially affected if the Adviser's determinations regarding the fair value of our investments are materially different from the values that we ultimately realize upon our disposal of such securities. Additional discussion regarding risks associated with determinations made by the Adviser is found in the risk factor "*The valuation process for certain of our portfolio holdings creates a conflict of interest.*"

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

Our total investment in one or more companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. Our five largest investments represented 36.4% of the fair value of our total portfolio as of March 31, 2019, compared to 30.5% as of March 31, 2018. Any disposition of a significant investment in one or more portfolio companies may negatively impact our net investment income and limit our ability to pay distributions.

*The interest rates of some of our term loans to our portfolio companies are priced using a spread over LIBOR, which may be phased out in the future.*

LIBOR is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. In general, our investments in debt securities have a term of five years, accrue interest at variable rates based on LIBOR and, to a lesser extent, at fixed rates. As of March 31, 2019, our loan portfolio consisted of 97.4% variable rate loans with floors and 2.6% fixed rate loans based on the total principal balance of all outstanding debt investments. On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time whether or not LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The Fed, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, announced replacement of U.S. dollar LIBOR with a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities called the Secured Overnight Financing Rate ("SOFR"). The first publication of SOFR was released in April 2018. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question and the future of LIBOR at this time is uncertain. If LIBOR ceases to exist, we may need to renegotiate the loan documents with our portfolio companies that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established.

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

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

*Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies and/or we could be subject to lender liability claims.*

We primarily invest in secured first and second lien debt securities issued by our portfolio companies. In some cases, portfolio companies will be permitted to have other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt securities may provide that the holders thereof are entitled to receive payment of interest and principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. Additionally, depending on the facts and circumstances, including the extent to which we provide managerial assistance to any portfolio company subject to bankruptcy, a bankruptcy court might re-characterize our debt investments and subordinate all or a portion of our claims to that of other creditors. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or in instances in which we exercised control over the borrower as a result of actions taken in rendering any managerial assistance. Furthermore, in the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization, or bankruptcy of a portfolio company.

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

As of March 31, 2019, we had investments in 30 portfolio companies, the five largest of which included Nth Degree, J.R. Hobbs, Brunswick, Counsel Press, and Pioneer, and comprised $227.8 million, or 36.4%, of our total investment portfolio, at fair value. A consequence of a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such investments or a substantial write-down of any one investment. Beyond our regulatory and income tax diversification requirements, as well as Credit Facility requirements, we do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25% of the value of our total assets. A downturn in a particular industry in which we have invested a significant portion of our total assets could have a materially adverse effect on us. As of March 31, 2019, our largest industry concentration was in Diversified/Conglomerate Services, representing 34.1% of our total investments, at fair value.

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

Since we generally make five year term loans and hold our loans and equity positions until the loans mature and/or we exit the investment, investors should not expect realization events, if any, to occur over the near term. In addition, we expect that any equity investments may require several years to appreciate in value and we cannot give any assurance that such appreciation will occur.

*The disposition of our investments may result in contingent liabilities.*

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

*Portfolio company-related litigation or other litigation or claims against us or our personnel could result in costs, including defense costs or damages, and the diversion of management time and resources.*

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

While we believe we would have valid defenses to potential claims brought due to our investment in any portfolio company, and will defend any such claims vigorously, we may nevertheless expend significant amounts of money in defense costs and expenses. Further, if we enter into settlements or suffer an adverse outcome in any litigation, we could be required to pay significant amounts. In addition, if any of our portfolio companies become subject to direct or indirect claims or other obligations, such as defense costs or damages in litigation or settlement, our investment in such companies could diminish in value and we could suffer indirect losses. Further, these matters could cause us to expend significant management time and effort in connection with assessment and defense of any claims. No range of potential expenses, costs or damages in connection with these matters can be estimated at this time.

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

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

***Risks Related to Our External Financing***

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

We will have a continuing need for capital to finance our investments. As of March 31, 2019, we, through our wholly-owned subsidiary, Business Investment, had $53.0 million in borrowings, at cost, outstanding under the Credit Facility, which provides for maximum borrowings of $200.0 million, with a revolving period end date of August 22, 2021 (the “Revolving Period End Date”). The Credit Facility permits us to fund additional loans and investments as long as we are within the conditions and covenants set forth in the credit agreement. Among other things, the Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict certain material changes to our credit and collection policy without the lenders’ consent. The Credit Facility also generally seeks to restrict distributions to stockholders to the sum of (i) our net investment income, (ii) net capital gains, and (iii) amounts deemed by the Company to be considered as having been paid during the prior fiscal year in accordance with Section 855(a) of the Code. Loans eligible to be pledged as collateral are subject to certain limitations, including, among other things, restrictions on geographic concentrations, industry concentrations, loan size, payment frequency and status, average life, portfolio company leverage, and lien property. The Credit Facility also requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of obligors in the borrowing base. Additionally, the Credit Facility contains a performance guaranty that requires the Company to maintain (i) a minimum net worth (defined in the Credit Facility to include our mandatorily redeemable term preferred stock) of the greater of $210.0 million or $210.0 million plus 50% of all equity and subordinated debt raised minus 50% of any equity or subordinated debt redeemed or retired after November 16, 2016, which equated to $218.7 million as of March 31, 2019, (ii) asset coverage with respect to senior securities representing indebtedness of at least 150% (or such percentage as may be set forth in Section 18 of the 1940 Act, as modified by Section 61 of the 1940 Act); and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of March 31, 2019, and as defined in the performance guaranty of the Credit Facility, we had a net worth of $533.9 million, asset coverage on our senior securities representing indebtedness of 997.6%, calculated in accordance with the requirements of Sections 18 and 61 of the 1940 Act, and an active status as a BDC and RIC. As of March 31, 2019, we were in compliance with all covenants under the Credit Facility; however, our continued compliance depends on many factors, some of which are beyond our control.

Given the continued uncertainty in the capital markets, any 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. 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, cash flows, and ability to pay distributions to our stockholders.

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

If the Credit Facility is not renewed or extended by the Revolving Period End Date, all principal and interest will be due and payable on August 22, 2023 (two years after the Revolving Period End Date). Subject to certain terms and conditions, the Credit Facility may be expanded to a total of $300.0 million through additional commitments of existing or new lenders. However, if such lenders are unwilling to provide additional commitments under the terms of the Credit Facility, we will be unable to expand the Credit Facility and thus will continue to have limited availability to finance new investments under the Credit Facility. There can be no guaranty that we will be able to renew, extend or replace the Credit Facility upon its Revolving Period End Date on terms that are favorable to us, if at all. Our ability to expand the Credit Facility, and to obtain replacement financing at or before the time of its Revolving Period End Date, will be constrained by then current economic conditions affecting the credit markets. In the event that we are not able to expand the Credit Facility, or to renew, extend or refinance the Credit Facility by the Revolving Period End Date, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

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

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

Although we completed equity offerings of our Series E Term Preferred Stock and Series D Term Preferred Stock in August 2018 and September 2016, respectively, a common stock offering in May 2017, and initiated our at-the-market program in February 2018, there can be no assurance that we will be able to raise capital through issuing equity in the near future. Our business requires a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

- *Senior Securities*: We may issue senior securities representing indebtedness (including borrowings under the Credit Facility) and senior securities that are stock (including our Series D Term Preferred Stock and Series E Term Preferred Stock), up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a BDC, to issue senior securities representing indebtedness and senior securities which are stock, in amounts such that our asset coverage, as defined in Section 18(h) of the 1940 Act, is at least 150% on each such senior security immediately after each issuance of each such senior security. As a result of issuing senior securities (in whatever form), we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. In addition, our ability to pay distributions, issue senior securities or repurchase shares of our common stock would be restricted if the asset coverage on each of our senior securities is not at least 150%. If the aggregate fair value of our assets declines, we might be unable to satisfy that 150% requirement. To satisfy the 150% 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, pay dividends on our preferred stock or for offering costs will not be available for distributions to common stockholders. Pursuant to Section 61(a)(3) of the 1940 Act, we are permitted, under specified conditions, to issue multiple classes of senior securities representing indebtedness. However, pursuant to Section 18(c) of the 1940 Act, we are permitted to issue only one class of senior securities that are stock.

- *Common and Convertible Preferred Stock*: Because we are constrained in our ability to issue debt or senior securities for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock, the percentage ownership of our common stockholders at the time of the issuance would decrease and our existing common stockholders may experience dilution. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below NAV per common share to purchasers, other than to our existing common stockholders through a rights offering, without first obtaining the approval of our stockholders and our independent directors. If we were to sell shares of our common stock below our then current NAV per common share, as we did at times during March 2018 under the at-the-market program, and in other offerings in May 2017, March 2015, and October 2012, such sales would result in an immediate dilution to the NAV per common share. This dilution would occur as a result of the sale of common shares at a price below the then current NAV per share of our common stock and a proportionately greater decrease in a common stockholder's interest in our earnings and assets and voting percentage than the increase in our assets resulting from such issuance. For example, if we issue and sell an additional 10% of our common stock at a 5% discount from NAV, a common stockholder who does not participate in that offering for its proportionate interest will suffer NAV dilution of up to 0.5% or $5 per $1,000 of NAV.

This imposes constraints on our ability to raise capital when our common stock is trading below NAV per common share, as it generally has for the last several years. As noted above, the 1940 Act prohibits the issuance of multiple classes of senior securities that are stock. As a result, we would be prohibited from issuing convertible preferred stock to the extent that such a security was deemed to be a separate class of stock from our outstanding mandatorily redeemable preferred stock.

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

The use of leverage, including through the issuance of senior securities that are debt or stock, magnifies the potential for gain or loss on amounts invested, and, if we incur additional leverage as permitted by the Small Business Credit Availability Act (the "SBCAA"), this potential will be further magnified. We have incurred leverage in the past and currently incur leverage through the Credit Facility and shares of our mandatorily redeemable preferred stock and, from time to time, may incur additional leverage to the extent permitted under the 1940 Act. The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in our securities. In the future, we may borrow from, and issue senior securities to, banks and other lenders. Holders of these senior securities will have fixed dollar claims on our assets that are superior to the claims of our common stockholders, and we would expect such holders to seek recovery against our assets in the event of a default.

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(A) | (18.45)% | (10.65)% | (2.85)% | 4.95% | 12.75% |

(A) The hypothetical return to common stockholders is calculated by multiplying our total assets as of March 31, 2019 by the assumed rates of return and subtracting all interest on our debt and dividends on our mandatorily redeemable preferred stock expected to be paid or declared during the twelve months following March 31, 2019, and then dividing the resulting difference by our total net assets attributable to common stock as of March 31, 2019. Based on $635.1 million in total assets, $53.0 million in borrowings outstanding on the Credit Facility, at cost, $5.1 million in a secured borrowing, $57.5 million in aggregate liquidation preference of Series D Term Preferred Stock, $74.8 million in aggregate liquidation preference of Series E Term Preferred Stock, and $407.1 million in net assets as of March 31, 2019.

Based on an aggregate outstanding indebtedness of $58.1 million at cost as of March 31, 2019, the effective annual cash interest rate of 5.6% as of that date, and aggregate liquidation preference of our mandatorily redeemable preferred stock of $132.3 million with a weighted-average dividend rate of 6.3%, our investment portfolio at fair value would have to produce an annual return of at least 1.9% to cover annual interest payments on the outstanding debt and dividends on our mandatorily redeemable preferred stock.

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

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

Ultimately, we expect approximately 90.0% of the loans in our portfolio to be at variable rates determined on the basis of the LIBOR and approximately 10.0% to be at fixed rates. As of March 31, 2019, based on the total principal balance of debt investments outstanding, our portfolio consisted of 97.4% of loans at variable rates with floors and 2.6% at fixed rates.

As of March 31, 2019, we did not have any hedging arrangement, such as interest rate hedges. While hedging arrangements may insulate us against adverse fluctuations in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or any future hedging transactions could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Our ability to receive payments pursuant to a hedging arrangement is linked to the ability of the counter-party to that hedging arrangement to make the required payments. To the extent that the counter-party to the hedging arrangement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the arrangement.

Also, the fair value of certain of our debt investments is based, in part, on the current market yields or interest rates of similar securities. A change in interest rates could have a significant impact on our determination of the fair value of these debt investments. In addition, a change in interest rates could also have an impact on the fair value of any hedging arrangements then in effect that could result in the recording of unrealized appreciation or depreciation in future periods. Therefore, adverse developments resulting from changes in interest rates could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Refer to *"Quantitative and Qualitative Disclosures About Market Risk*" for additional information on interest rate fluctuations.

***Risks Related to Our Regulation and Structure***

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

To maintain our qualification as a RIC, we must maintain our status as a BDC and meet annual distribution, income source, and asset diversification requirements. The annual distribution requirement is satisfied if we distribute at least 90% of our Investment Company Taxable Income to our stockholders on an annual basis. Because we use leverage, we are subject to certain asset coverage ratio requirements under the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we may receive with respect to debt investments generally create original issue discount ("OID"), which we must recognize as ordinary income over the term of the debt investment. Similarly, PIK interest which is accrued generally over the term of the debt investment but not paid in cash, is recognized as ordinary income. Both OID and PIK interest will increase the amounts we are required to distribute to maintain our RIC status. Because such OIDs and PIK interest will not produce distributable cash for us at the same time as we are required to make distributions, we will need to use cash from other sources to satisfy such distribution requirements. As of March 31, 2019, we did not have investments with OID or a PIK feature. Additionally, we must meet asset diversification and income source requirements at the end of each calendar quarter. If we fail to meet these tests, we may need to quickly dispose of certain investments to prevent the loss of RIC status. Since most of our investments will be illiquid, such dispositions, if even possible, may not be made at prices advantageous to us and may result in substantial losses. If we fail to qualify as a RIC as of a calendar quarter or annually for any reason and become fully subject to U.S. federal corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount distributed. Such a failure would have a material adverse effect on us and our common stock. Refer to *"Business — Material U.S. Federal Income Tax Considerations — RIC Status"* for additional information regarding asset coverage ratio and RIC requirements and to "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Business – Regulatory Compliance*" for a discussion of changes to the asset coverage requirements pursuant to the SBCAA.

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

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

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

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

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

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

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

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

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

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

*We may not be permitted to declare a dividend or make any distribution to stockholders or repurchase shares until such time as we satisfy the asset coverage tests under the provisions of the 1940 Act that apply to BDCs. As a BDC, we have the ability to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 150% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our debt at a time when such sales and/or repayments may be disadvantageous.*

Regulations governing our operation as a BDC and RIC will affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth. As a result of the annual distribution requirement to qualify as a RIC, we may need to periodically access the capital markets to raise cash to fund new investments. We may issue senior securities representing indebtedness, including borrowing money from banks or other financial institutions, or senior securities that are stock, such as our Series D Term Preferred Stock, and our Series E Term Preferred Stock, only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 150% after each such incurrence or issuance. Further, we may not be permitted to declare a dividend or make any distribution to our outstanding stockholders or repurchase shares until such time as we satisfy this test. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a BDC, therefore, we intend to continuously issue equity at a rate more frequent than our privately owned competitors, which may lead to greater stockholder dilution. We have incurred leverage to generate capital to make additional investments. If the value of our assets declines, we may be unable to satisfy the asset coverage test under the 1940 Act, which could prohibit us from paying distributions and could prevent us from qualifying as a RIC. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous.

*Legislation allows us to incur additional leverage under the 1940 Act, distinct from certain of our obligations under our Credit Facility and our two series of mandatorily redeemable preferred stock.*

Historically, as a BDC, under the 1940 Act, we were generally required to maintain asset coverage of 200% for senior securities representing indebtedness (i.e., debt) or stock (i.e., preferred stock). On March 23, 2018, President Trump signed into legislation the Consolidated Appropriations Act of 2018, also known as the "omnibus spending package." Included in Title VIII therein is the SBCAA that includes certain regulations under the federal securities laws impacting BDCs. Among other items, the SBCAA allows a BDC to increase the amount of debt it may incur by modifying the asset coverage percentage from 200% to 150% (subject to specific approval and disclosure requirements).

On April 10, 2018, our Board of Directors, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) thereof, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the Company's asset coverage requirements for senior securities changed from 200% to 150%, effective April 10, 2019, one year after the date of the Board of Director's approval. Therefore, 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.

Notwithstanding the modified asset coverage leverage ratio under the 1940 Act described above, we are separately subject to a minimum asset coverage requirement of 200% with respect to our Series D Term Preferred Stock. If we drop below the 200% minimum asset coverage requirement, we may under certain circumstances be required to redeem all or a portion of our Series D Term Preferred Stock. Such events, if they were to occur, could have a significant adverse effect on our business, financial condition, results of operations, and cash flows.

***Risks Related to Our External Management***

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

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

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

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

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

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

*The Adviser's liability is limited under the Advisory Agreement, and we are required to indemnify our investment adviser against certain liabilities, which may lead the Adviser to act in a riskier manner on our behalf than it would when acting for its own account.*

The Adviser has not assumed any responsibility to us other than to render the services described in the Advisory Agreement, and it will not be responsible for any action of our Board of Directors in declining to follow the Adviser's advice or recommendations. Pursuant to the Advisory Agreement, the Adviser and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with the Adviser will not be liable to us for their acts under the Advisory Agreement, absent willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations under the Advisory Agreement. We have agreed to indemnify, defend and protect the Adviser and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with the Adviser with respect to all damages, liabilities, costs and expenses arising out of or otherwise based upon the performance of any of the Adviser's duties or obligations under the Advisory Agreement or otherwise as an investment adviser for us, and not arising out of willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations under the Advisory Agreement. These protections may lead the Adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account.

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

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

*We may be obligated to pay the Adviser incentive compensation even if we incur a net decrease in net assets.*

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

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

The part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include income that has been accrued but not yet received in cash, such as debt instruments with PIK interest. If a portfolio company defaults on a loan, it is possible that such accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a clawback right against the Adviser. During the years ended March 31, 2019, 2018, and 2017, we did not record any PIK income or any other non-cash income, nor did we collect any PIK interest in cash.

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

Our ability to achieve our investment objectives will depend on our ability to grow, which in turn will depend on the Adviser's ability to identify and invest in securities that meet our investment criteria. Accomplishing this result on a cost-effective basis will be largely a function of the Adviser's structuring of the investment process, its ability to provide competent and efficient services to us, and our access to financing on acceptable terms.

The Adviser's senior management team has substantial responsibilities under the Advisory Agreement. In order to grow, the Adviser will need to hire, train, supervise, and manage new employees successfully. Any failure to manage our future growth effectively would likely have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

Our executive officers and directors, and the officers and directors of the Adviser, serve or may serve as officers, directors, or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our or our stockholders' best interests. For example, Mr. Gladstone, our chairman and chief executive officer, is the chairman of the board and chief executive officer of the Adviser and Administrator, and the Affiliated Public Funds. In addition, Mr. Brubaker, our vice chairman and chief operating officer, is the vice chairman and chief operating officer of the Adviser and Administrator, and the Affiliated Public Funds. Mr. Dullum, our president, is an executive managing director of the Adviser. While portfolio managers and the officers and other employees of the Adviser will devote as much time to the management of us as appropriate to enable the Adviser to perform its duties in accordance with the Advisory Agreement, the portfolio managers and other of the Adviser's officers may have conflicts in allocating their time and services among us, on the one hand, and other investment vehicles managed by the Adviser, on the other hand. These activities could be viewed as creating a conflict of interest insofar as the time and effort of the portfolio managers and the officers and employees of the Adviser will not be devoted exclusively to our business but will instead be allocated between our business and the management of these other investment vehicles. Moreover, the Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with ours and accordingly may invest in, whether principally or secondarily, asset classes we target. While the Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, the Adviser has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the Company or the Affiliated Public Fund with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of the Adviser may face conflicts in the allocation of investment opportunities to other entities it manages. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other funds managed by the Adviser.

In certain circumstances, we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, the prior approval of our Board of Directors. As of March 31, 2019, our Board of Directors has approved the following types of transactions:

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

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

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

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

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

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

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

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

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

***Risks Related to an Investment in Our Securities***

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

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

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

Our current intention is to distribute up to 100% of our Investment Company Taxable Income to our stockholders by paying monthly distributions. We may retain some or all of our net realized long-term capital gains, if any, and designate them as deemed distributions to supplement our equity capital and support the growth of our portfolio, although our Board of Directors may determine to distribute these net realized long-term capital gains to our stockholders in cash. In addition, the Credit Facility restricts the amount of distributions we are permitted to make annually. We cannot assure investors that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions.

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

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

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

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

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

Shares of closed-end investment companies frequently trade at a discount to NAV per common share. Since our inception, our common stock has at times traded above NAV per share and at times below NAV per share. During the past year, our common stock has at times traded significantly below NAV per share. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our NAV per share will decline. As with any stock, the price of our common shares will fluctuate with market conditions and other factors. If common shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our NAV, but will depend upon the market price of the shares at the time of sale. Since the market price of our common shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the common shares will trade at, below or above our NAV per share.

Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below NAV per share to purchasers other than our existing common stockholders through a rights offering without first obtaining the approval of our stockholders and our independent directors. Additionally, at times when our common stock is trading below its NAV per share, our dividend yield may exceed the weighted-average returns that we would expect to realize on new investments that would be made with the proceeds from the sale of such stock, making it unlikely that we would determine to issue additional common shares in such circumstances. Thus, for as long as our common stock may trade below NAV per share, we generally will be subject to significant constraints on our ability to raise capital through the issuance of common stock. Additionally, an extended period of time in which we are unable to raise capital may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

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

At our most recent annual meeting of stockholders on August 9, 2018, our stockholders approved a proposal designed to allow us to sell shares of our common stock below the then current NAV per share in one or more offerings for a period of one year from the date of such approval, subject to certain conditions (including, that the number of common shares issued and sold pursuant to such authority does not exceed 25% of our then outstanding common stock immediately prior to each such sale).

With this and similar previous approvals from our stockholders, we exercised this right with Board of Director approval in March and April 2018 for certain sales under the at-the-market program (Refer to "*Liquidity and Capital Resources — Equity — Common Stock"* for further details of sales under our at-the-market program.), and in May 2017, when we completed a public offering of 2.1 million shares of our common stock at a public offering price of $9.38 per share, which was below our then current NAV of $9.95 per share. In June 2017, the underwriters partially exercised their over-allotment option and purchased an additional 155,265 shares at the public offering price of $9.38 per share and on the same terms and conditions solely to cover over-allotments. The net dilutive effect of the issuance of common stock from the May and June 2017 offerings, net of discounts, commissions, and offering costs borne by us, below NAV was $0.07 per share of common stock. With prior approval from our stockholders and our Board of Directors, we also issued shares of common stock below our then current NAV per share in public offerings in March and April of 2015 and in October 2012 with a net dilutive effect of such issuances, net of discounts, commissions and offering costs borne by us, of $0.29 and $0.39, respectively, per share of common stock.

At the upcoming annual stockholders meeting to be held in August 2019, we expect that our stockholders will again be asked to vote in favor of renewing this proposal for another year. During the past year, our common stock has frequently traded, and at times significantly, below NAV per share. Any decision to sell shares of our common stock below the then current NAV per share of our common stock would be subject to the determination by our Board of Directors that such issuance is in our and our stockholders' best interests.

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

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

The terms of our two series of mandatorily redeemable preferred stock provide for annual dividends of $1.5625 and $1.5938 per outstanding share of our Series D Term Preferred Stock and Series E Term Preferred Stock, respectively. In accordance with the 1940 Act and the terms of each of our two series of mandatorily redeemable term preferred stock, if dividends thereon are unpaid in an amount equal to at least two years of dividends, the holders of our preferred stock will be entitled to elect a majority of our Board of Directors.

*Holders of our debt or mandatorily redeemable preferred stock have liquidation and other rights that are senior to the rights of the holders of our common stock. Any future issuance of debt or additional shares of preferred stock could adversely affect the market price of our common stock.*

We may in the future raise additional capital through the issuance of debt or additional shares of preferred stock. Our Board of Directors is authorized to issue one or more classes or series of preferred stock (so long as such stock is issued in parity with our outstanding shares of mandatorily redeemable preferred stock in accordance with Section 18(c) of the 1940 Act) from time to time without any action on the part of the stockholders, as it has done with respect to our outstanding series of mandatorily redeemable preferred stock. Our Board of Directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over our common stock with respect to dividends or upon our dissolution, winding-up or liquidation, and other terms. Holders of our outstanding mandatorily redeemable preferred stock have, and holders of any future debt securities will have, preference over our common stock with respect to the payment of dividends and upon our liquidation, dissolution or winding-up. This will reduce the amount of our assets, if any, available for distribution to holders of our common stock. The decision to issue debt or preferred stock is dependent on market conditions and other factors that may be beyond our control. As a result, we cannot predict or estimate the amount, timing or nature of our future issuances. Any such future issuance could reduce the market price of our common stock.

Additionally, if we issue additional preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

*An active trading market for the mandatorily redeemable preferred stock may not exist or continue, which could adversely affect the market price of the mandatorily redeemable preferred stock or a holder's ability to sell its shares.*

Our Series D Term Preferred Stock and Series E Term Preferred Stock are listed on Nasdaq. However, we cannot provide any assurances that an active trading market for the mandatorily redeemable preferred stock will exist in the future or that stockholders will be able to sell their shares of mandatorily redeemable preferred stock. Even if an active trading market does exist, shares of the mandatorily redeemable preferred stock may trade at a discount from the liquidation preference for such shares depending on prevailing interest rates, the market for similar securities, general economic conditions, our issuance of debt or preferred equity securities and our financial condition, results of operation and prospects.

To the extent an active trading market does not exist, the liquidity and trading price for shares of the mandatorily redeemable preferred stock may be harmed. Accordingly, holders may be required to bear the financial risk of an investment in the mandatorily redeemable preferred stock for an indefinite period of time.

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

Our series of mandatorily redeemable 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 our mandatorily redeemable preferred stock may increase, which would likely result in a decline in the secondary market price of the mandatorily redeemable preferred stock prior to the mandatory redemption date for that series of mandatorily redeemable preferred stock.

*The mandatorily redeemable preferred stock is not rated.*

Our series of mandatorily redeemable preferred stock are not rated by any rating agency. Unrated securities usually trade at a discount to similar, rated securities. As a result, the series of mandatorily redeemable preferred stock may trade at prices that are lower than they might otherwise trade if rated by a rating agency.

*Our mandatorily redeemable preferred stock bears a risk of early redemption by us.*

We may voluntarily redeem some or all of the Series D Term Preferred Stock at any time, and the Series E Term Preferred Stock on or after August 31, 2020. We also may be forced to redeem some or all of the outstanding shares of mandatorily redeemable preferred stock to meet regulatory requirements or the asset coverage requirements of such shares. We are also required to redeem all of the mandatorily redeemable preferred stock upon certain change of control transactions. Any such redemption may occur at a time that is unfavorable to holders of the affected series of mandatorily redeemable preferred stock. We may have an incentive to redeem a series of mandatorily redeemable preferred stock voluntarily before the mandatory redemption date for such series if market conditions allow us to issue other preferred stock or debt securities at a rate that is lower than the dividend rate on such series of mandatorily redeemable preferred stock or for other reasons. If we redeem shares of the mandatorily redeemable preferred stock before the mandatory redemption date for such series of mandatorily redeemable preferred stock, the holders of such redeemed shares face the risk that the return on an investment purchased with proceeds from such redemption may be lower than the return previously obtained from the investment in the mandatorily redeemable preferred stock.

*Claims of holders of the mandatorily redeemable preferred stock will be subject to a risk of subordination relative to holders of our debt instruments.*

While holders of the mandatorily redeemable preferred stock will have equal liquidation rights to the holder of any other outstanding series of our mandatorily redeemable preferred stock, such holders will be subordinated to the rights of holders of our current and any future indebtedness, including the Credit Facility. Even though the mandatorily redeemable preferred stock is classified as a liability for purposes of GAAP and considered senior securities under the 1940 Act, the mandatorily redeemable preferred stock are not debt instruments. Therefore, dividends, distributions and other payments to holders of mandatorily redeemable 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 mandatorily redeemable preferred stock.

*Holders of the mandatorily redeemable preferred stock will bear dividend risk.*

We may be unable to pay dividends on the series of mandatorily redeemable preferred stock under some circumstances. The terms of our indebtedness, including the Credit Facility, preclude the payment of dividends in respect of equity securities, including the mandatorily redeemable preferred stock, under certain conditions.

*There is a risk of delay in our redemption of the mandatorily redeemable 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 redemption date or any other date on which we are required by law or the terms of a series of mandatorily redeemable preferred stock to redeem shares of such series, 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 mandatorily redeemable preferred stock might be adversely affected.

***Other Risks***

*Cybersecurity risks and cyber incidents may adversely affect our business by causing a disruption to our operations, or the operations of businesses in which we invest, a compromise or corruption of our confidential information and/or damage to our business relationships, all of which could negatively impact our business, financial condition and operating results.*

Maintaining our network security is of critical importance because our systems store highly confidential financial models and portfolio company information. Although we have implemented, and will continue to implement, security measures, our technology platform may be vulnerable to intrusion, computer viruses or similar disruptive problems caused by cyber-attacks. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources or those of our portfolio companies. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems or those of our portfolio companies for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships or those of our portfolio companies. As our and our portfolio companies' reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided to us by third-party service providers, and the information systems of our portfolio companies. We have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber incident, do not guarantee that a cyber incident will not occur and/or that our financial results, operations or confidential information will not be negatively impacted by such an incident. In addition, any such incident, disruption or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations, and damage our and our Adviser's reputations, resulting in a loss of confidence in our services and our Adviser's services, which could adversely affect our business.

*We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.*

Our business is dependent on our and third parties' communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber-attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

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

## ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. Refer to "*Risk Factors — Risks Related to Our Investments — Portfolio company-related litigation or other litigation or claims against us or our personnel could result in costs, including defense costs or damages, and the diversion of management time and resources*" for additional information. While we do not expect that the resolution of these matters, if they arise, would materially affect our business, financial condition, results of operations or cash flows, resolution will be subject to various uncertainties and could result in the expenditure of significant financial and managerial resources.

## ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

## PART II

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

Our common stock is traded on Nasdaq under the symbol "GAIN." The following table reflects, by quarter, the high and low intraday sales prices per share of our common stock on the Nasdaq, the intraday sales prices as a percentage of NAV per share and quarterly distributions declared per common share for each fiscal quarter during the last two completed fiscal years and the current fiscal year through May 10, 2019.

| | Quarter Ended/ Ending | NAV(A) | Sales Prices High | Sales Prices Low | Premium / (Discount) of High to NAV(B) | Premium (Discount) of Low to NAV(B) | Declared Common Stock Distributions |
|---|---|---|---|---|---|---|---|
| **Fiscal Year ended March 31, 2018:** | 6/30/2017 | $ 9.88 | $ 9.84 | $ 8.90 | (0)% | (10)% | $ 0.2520(C) |
| | 9/30/2017 | 10.10 | 9.84 | 9.04 | (3) | (10) | 0.1920 |
| | 12/31/2017 | 10.37 | 11.50 | 9.48 | 11 | (9) | 0.2550(C) |
| | 3/31/2018 | 10.85 | 11.42 | 9.00 | 5 | (17) | 0.1950 |
| **Fiscal Year ended March 31, 2019:** | 6/30/2018 | $11.57 | $12.26 | $ 9.81 | 6% | (15)% | $ 0.2610(C) |
| | 9/30/2018 | 12.30 | 12.15 | 10.95 | (1) | (11) | 0.2010 |
| | 12/31/2018 | 12.53 | 11.50 | 8.70 | (8) | (31) | 0.2640(C) |
| | 3/31/2019 | 12.40 | 12.07 | 9.23 | (3) | (26) | 0.2040 |
| **Fiscal Year ending March 31, 2020:** | 6/30/2019 (through May 10, 2019) | $ * | $12.70 | $11.67 | * | * | $ 0.2940(C) |

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

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

(C) Includes a $0.06 per common share supplemental distribution paid in each of June 2017 and 2018 and December 2017 and 2018, and a $0.09 per common share supplemental distribution to be paid in June 2019.

* Not yet available, as the NAV per share as of the end of this quarter has not yet been finalized.

As of May 10, 2019, there were 23 record owners of our common stock. This number does not include stockholders for whom shares are held in "street name."

### Distributions

We generally intend to distribute, in the form of cash distributions, up to 100% of our Investment Company Taxable Income, if any, to our stockholders in the form of monthly distributions. We may retain some or all of our net realized long-term capital gains, if any, and designate them as a deemed distribution to supplement our equity capital and support the growth of our portfolio, but we may also distribute all or a portion of such gains to stockholders in cash. For the year ended March 31, 2019, we elected to retain $50.0 million, or $1.52 per common share, of net long-term capital gains and to designate the retained amount as deemed distributions to common stockholders. As a result, each common stockholder will (i) be required to report their pro rata share of the retained gain on their tax return as long-term capital gain, (ii) receive a refundable tax credit for their pro rata share of federal tax paid by us on the retained gain, and (iii) increase the tax basis of their shares of common stock by an amount equal to the deemed distribution less the tax credit. We incurred $10.5 million, or $0.32 per common share, of federal taxes on behalf of common stockholders for the year ended March 31, 2019.

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The Credit Facility also generally restricts distributions on our common stock to the sum of certain amounts, including, our net investment income, plus net capital gains, plus amounts elected by the Company to be considered as having been paid during the prior fiscal year in accordance with Section 855(a) of the Code.

**Recent Sales of Unregistered Securities**

We did not sell any unregistered shares of stock during the fiscal year ended March 31, 2019.

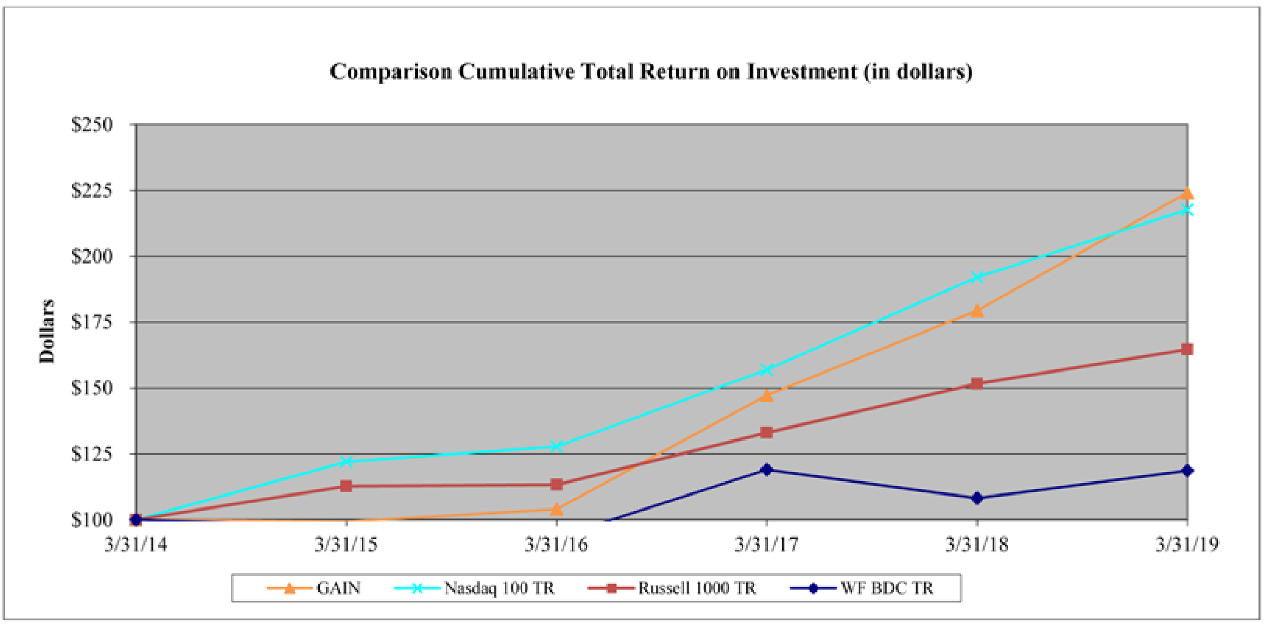
**Purchases of Equity Securities**

We did not repurchase any shares of our stock during the fourth quarter ended March 31, 2019.

**Stock Performance Graph**

The following graph shows the total stockholder return on an investment of $100 in cash on March 31, 2014 for (i) our common stock, (ii) the Nasdaq's 100 Total Return index ("Nasdaq 100 TR"), (iii) the Russell 1000 Total Return index ("Russell 1000 TR") and (iv) the Wells Fargo BDC Total Return index ("WF BDC TR"). The graph and other information furnished under the heading "Stock Performance Graph" shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference and shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under, or to the liabilities of Section 18 of, the Exchange Act.

The returns on each investment assume reinvestment of dividends. This stock performance graph and the related textual information are not necessarily indicative of future performance.




| | GAIN | Nasdaq 100 TR | Russell 1000 TR | WF BDC TR |
|---|---|---|---|---|
| 3/31/2014 | **$100.00** | $ 100.00 | $ 100.00 | $ 100.00 |
| 3/31/2015 | **99.22** | 122.03 | 112.73 | 97.55 |
| 3/31/2016 | **104.01** | 127.82 | 113.30 | 93.25 |
| 3/31/2017 | **147.26** | 156.93 | 133.05 | 119.01 |
| 3/31/2018 | **179.40** | 192.05 | 151.64 | 108.20 |
| 3/31/2019 | **224.16** | 217.71 | 164.64 | 118.64 |

**Fees and Expenses**

The following table is intended to assist stockholders in understanding the costs and expenses that common stockholders will bear directly or indirectly. The percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this Annual Report contains a reference to fees or expenses paid by "us" or the "Company," or that "we" will pay fees or expenses, common stockholders will indirectly bear such fees or expenses as investors in the Company. The following annualized percentages were calculated based on actual expenses incurred in the quarter ended March 31, 2019 and average net assets for the quarter ended March 31, 2019. The table and examples below include all fees and expenses of our consolidated subsidiaries.

| | |
|---|---|
| **Stockholder Transaction Expenses:** | |
| Sales load (as a percentage of offering price)(1) | — % |
| Offering expenses (as a percentage of offering price)(1) | — % |
| Dividend reinvestment plan expenses (per sales transaction fee)(2) | Up to $25 Transaction fee |
| Total stockholder transaction expenses (as a percentage of offering price)(1) | — % |
| **Annual expenses (as a percentage of net assets attributable to common stock)(3):** | |
| Base management fee(4) | 3.06% |
| Loan servicing fee(5) | 1.64% |
| Incentive fees (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6) | 3.32% |
| Interest payments on borrowed funds(7) | 1.29% |
| Dividend expense on mandatorily redeemable preferred stock(8) | 2.21% |
| Other expenses(9) | 1.16% |
| Total annual expenses(10) | 12.68% |

(1) The amounts set forth in the table above do not reflect the impact of any sales load or other offering expenses borne by the Company and its common stockholders. If applicable, the prospectus or prospectus supplement relating to an offering of our common stock will disclose the offering price and the estimated offering expenses and total stockholder transaction expenses borne by the Company and its common stockholders as a percentage of the offering price. In the event that shares of our common stock are sold to or through underwriters, the applicable prospectus or prospectus supplement will also disclose the applicable sales load.

(2) The expenses of the dividend reinvestment plan, if any, are included in stock record expenses, a component of "Other expenses." If a participant elects by written notice to the plan agent prior to termination of his or her account to have the plan agent sell part or all of the shares held by the plan agent in the participant's account and remit the proceeds to the participant, the plan agent is authorized to deduct a transaction fee, plus per share brokerage commissions, from the proceeds. The participants in the dividend reinvestment plan will also bear a transaction fee, plus per share brokerage commissions incurred with respect to open market purchases, if any. See "*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Distributions and Dividends to Stockholders—Dividend Reinvestment Plan*" for information on the dividend reinvestment plan.

(3) The percentages presented in this table are gross of credits to any fees.

(4) The base management fee is payable quarterly to the Adviser pursuant to our Advisory Agreement and is assessed at an annual rate of 2.0%, computed on the basis of the value of our average gross assets at the end of the two most recently completed quarters (inclusive of the current quarter), which are total assets, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings, valued at the end of the applicable quarters within the respective period and adjusted appropriately for any share issuances or repurchases during the period. In accordance with the requirements of the SEC, the table above shows our base management fee as a percentage of average net assets attributable to common stockholders. For purposes of the table, the annualized base management fee has been converted to 3.06% of the average net assets for the quarter ended March 31, 2019 by dividing the total annualized amount of the base management fee by our average net assets for the quarter ended March 31, 2019. The base management fee for the quarter ended March 31, 2019 before application of any credits was $3.1 million.

Pursuant to the requirements of the 1940 Act, the Adviser makes available significant managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance. Such services may include: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting, and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. The Adviser non-contractually, unconditionally, and irrevocably credits 100% of any fees received for such services against the base management fee that we would otherwise be required to pay to the Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees, is retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser and primarily related to the valuation of portfolio companies. For the quarter ended March 31, 2019, $0.7 million of these fees were non-contractually, unconditionally and irrevocably credited against the base management fee. See *"Item 1. Business — Transactions with Related Parties — Investment Advisory and Management Agreement"* for additional information.

(5) The Adviser services the loans held by Business Investment (the borrower under the Credit Facility, in return for which the Adviser receives a 2.0% annual loan servicing fee based on the monthly aggregate balance of loans pledged under the Credit Facility. Since Business Investment is a consolidated subsidiary of ours, coupled with the fact that the total base management fee paid to the Adviser pursuant to the Advisory Agreement cannot exceed 2.0% of total assets (less any uninvested cash or cash equivalents resulting from borrowings) during any given calendar year, we treat payment of the loan servicing fee pursuant to the Credit Facility as a pre-payment of the base management fee under the Advisory Agreement. Accordingly, these loan servicing fees are 100% non-contractually, unconditionally and irrevocably credited back to us by the Adviser. The loan servicing fee for the three months ended March 31, 2019 was $1.7 million. See "*Item 1. Business—Transactions with Related Parties—Loan Servicing Fee Pursuant to Credit Facility*" and footnote 4 above for additional information.

(6) The incentive fee payable to the Adviser under the Advisory Agreement consists of two parts: an income-based fee and a capital gains-based fee. The income-based incentive fee is payable quarterly in arrears, and equals 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly hurdle rate of our net assets, which we define as total assets less indebtedness and before taking into account any incentive fees payable or contractually due but not payable during the period, at the end of the immediately preceding calendar quarter, adjusted appropriately for any share issuances or repurchases during the period, subject to a "catch-up" provision measured as of the end of each calendar quarter. The "catch-up" provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide our Adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter. For the three months ended March 31, 2019, the income-based incentive fee was $1.3 million.

The capital gains-based incentive fee equals 20% of our net realized capital gains in excess of unrealized depreciation since our inception, if any, computed as all realized capital gains net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, measured at the end of each calendar year and payable at the end of each fiscal year. During the three months ended March 31, 2019, we recorded capital gains-based incentive fees of $2.1 million in accordance with GAAP, which were not contractually due under the terms of the Advisory Agreement.

No credits were applied to the incentive fee for the three months ended March 31, 2019; however, the Adviser may credit such fee in the future.

Examples of how the incentive fee would be calculated are as follows:

- Assuming pre-incentive fee net investment income of 0.55%, there would be no income-based incentive fee because such income would not exceed the hurdle rate of 1.75%.

- Assuming pre-incentive fee net investment income of 2.00%, the income-based incentive fee would be as follows:

  = 100.0% × (2.00% - 1.75%)

  = 0.25%

- Assuming pre-incentive fee net investment income of 2.30%, the income-based incentive fee would be as follows:

  = (100.0% × ("catch-up": 2.1875% - 1.75%)) + (20.0% × (2.30% - 2.1875%))

  = (100.0% × 0.4375%) + (20.0% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

- Assuming net realized capital gains of 6% and realized capital losses and unrealized capital depreciation of 1%, the capital gains-based incentive fee would be as follows:

  = 20.0% × (6.0% - 1.0%)

  = 20.0% × 5.0%

  = 1.0%

For a more detailed discussion of the calculation of the two-part incentive fee, including the capital gains-based incentive fee calculation under GAAP, see "*Item 1. Business — Transactions with Related Parties — Investment Advisory and Management Agreement*"

(7) Includes amortization of deferred financing costs. As of March 31, 2019, we had $53.0 million in borrowings outstanding under our Credit Facility and $5.1 million of secured borrowings. See "*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving Line of Credit*" for additional information regarding the Credit Facility.

(8) Includes dividends paid on our Series D Term Preferred Stock and Series E Term Preferred Stock and amortization of deferred financing costs. See "*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Equity—Term Preferred Stock*" for additional information.

(9) Includes our overhead expenses, including payments under the Administration Agreement based on our projected allocable portion of overhead and other expenses estimated to be incurred by our Administrator in performing its obligations under the Administration Agreement for the current fiscal year. See "*Item 1. Business—Transactions with Related Parties—Administration Agreement"* for additional information.

(10) Total annualized gross expenses, based on actual amounts incurred for the three months ended March 31, 2019 (except as set forth in footnote 9), would be $52.0 million. After all non-contractual, unconditional, and irrevocable credits described in footnote 4, footnote 5, and footnote 6 above are applied to the base management fee and the loan servicing fee, total annualized expenses after fee credits, based on actual amounts incurred for the three months ended March 31, 2019 (except as set forth in footnote 9), would be $42.6 million or 10.39% as a percentage of net assets.

**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above. **The example below and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown. While the example assumes, as required by the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. Dollar amounts in the table below are not in thousands.**

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| Common stockholders would pay the following expenses on a $1,000 investment: | | | | |
| assuming a 5% annual return consisting entirely of ordinary income[(1)(2)] | $ 98 | $ 281 | $ 446 | $ 794 |
| assuming a 5% annual return consisting entirely of capital gains[(2)(3)] | $ 107 | $ 304 | $ 478 | $ 835 |

(1) For purposes of this example, we have assumed that the entire amount of the assumed 5.0% annual return would constitute ordinary income. While we recorded capital gains-based incentive fees of $2.1 million during the three months ended March 31, 2019 in accordance with GAAP, these fees were not contractually due under the terms of the Advisory Agreement. Because the assumed 5.0% annual return is significantly below the hurdle rate of 7.0% (annualized) that we must achieve under the Advisory Agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of this example, that no income-based incentive fee would be payable if we realized a 5.0% annual return.

(2) While the example assumes reinvestment of all distributions at NAV per share, participants in the dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution, and this price per share may differ from NAV per share. See "*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations— Liquidity and Capital Resources—Distributions and Dividends to Stockholders— Dividend Reinvestment Plan*" for additional information regarding our dividend reinvestment plan.

(3) For purposes of this example, we have assumed that the entire amount of the assumed 5.0% annual return would constitute capital gains and that no accumulated capital losses or unrealized depreciation would have to be overcome first before a capital gains-based incentive fee is payable.

**Senior Securities**

Information about our senior securities is shown in the following table as of the end of each of our last ten fiscal years. The annual information has been derived from our audited financial statements for each respective period, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. PricewaterhouseCoopers LLP's report on the senior securities table as of March 31, 2019 is attached as an exhibit to this Annual Report.

| Class and Year | Total Amount Outstanding Exclusive of Treasury Securities(1) | Asset Coverage Per Unit(2) | Involuntary Liquidating Preference Per Unit(3) | Average Market Value Per Unit(4) |
|---|---|---|---|---|
| 7.125% Series A Cumulative Term Preferred Stock(5) | | | | |
| March 31, 2019 | — | N/A | — | N/A |
| March 31, 2018 | — | N/A | — | N/A |
| March 31, 2017 | — | N/A | — | N/A |
| March 31, 2016 | $ 40,000,000 | $ 2,214 | $ 25.00 | $ 25.60 |
| March 31, 2015 | 40,000,000 | 2,301 | 25.00 | 25.78 |
| March 31, 2014 | 40,000,000 | 2,978 | 25.00 | 26.53 |
| March 31, 2013 | 40,000,000 | 2,725 | 25.00 | 26.92 |
| March 31, 2012 | 40,000,000 | 2,676 | 25.00 | 24.97 |
| 6.75% Series B Cumulative Term Preferred Stock(6) | | | | |
| March 31, 2019 | — | N/A | — | N/A |
| March 31, 2018 | $ 41,400,000 | $ 2,373 | $ 25.00 | $ 25.20 |
| March 31, 2017 | 41,400,000 | 2,356 | 25.00 | 26.00 |
| March 31, 2016 | 41,400,000 | 2,214 | 25.00 | 24.43 |
| March 31, 2015 | 41,400,000 | 2,301 | 25.00 | 25.38 |
| 6.50% Series C Cumulative Term Preferred Stock due 2022(7) | | | | |
| March 31, 2019 | — | N/A | — | N/A |
| March 31, 2018 | 40,250,000 | $ 2,373 | $ 25.00 | $ 25.33 |
| March 31, 2017 | 40,250,000 | 2,356 | 25.00 | 25.64 |
| March 31, 2016 | 40,250,000 | 2,214 | 25.00 | 23.92 |
| 6.25% Series D Cumulative Term Preferred Stock due 2023(8) | | | | |
| March 31, 2019 | $ 57,500,000 | $ 3,091 | $ 25.00 | $ 25.38 |
| March 31, 2018 | 57,500,000 | 2,373 | 25.00 | 25.22 |
| March 31, 2017 | 57,500,000 | 2,356 | 25.00 | 25.43 |
| 6.375% Series E Cumulative Term Preferred Stock due 2025(9) | | | | |
| March 31, 2019 | $ 74,750,000 | $ 3,091 | $ 25.00 | $ 25.55 |
| Revolving credit facilities | | | | |
| March 31, 2019 | $ 53,000,000 | $ 9,976 | — | N/A |
| March 31, 2018 | 107,000,000 | 5,257 | — | N/A |
| March 31, 2017 | 69,700,000 | 6,613 | — | N/A |
| March 31, 2016 | 95,000,000 | 4,838 | — | N/A |
| March 31, 2015 | 118,800,000 | 2,301 | — | N/A |
| March 31, 2014 | 61,250,000 | 2,978 | — | N/A |
| March 31, 2013 | 31,000,000 | 2,725 | — | N/A |
| March 31, 2012 | — | N/A | — | N/A |
| March 31, 2011 | — | N/A | — | N/A |
| March 31, 2010 | 27,800,000 | 2,814 | — | N/A |

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| | | | | |
|---|---|---|---|---|
| Short-term loan | | | | |
| March 31, 2019 | — | N/A | — | N/A |
| March 31, 2018 | — | N/A | — | N/A |
| March 31, 2017 | — | N/A | — | N/A |
| March 31, 2016 | — | N/A | — | N/A |
| March 31, 2015 | — | N/A | — | N/A |
| March 31, 2014 | — | N/A | — | N/A |
| March 31, 2013 | $58,016,000 | $2,725 | — | N/A |
| March 31, 2012 | 76,005,000 | 2,676 | — | N/A |
| March 31, 2011 | 40,000,000 | 5,344 | — | N/A |
| March 31, 2010 | 75,000,000 | 2,814 | — | N/A |
| Secured borrowings(10) | | | | |
| March 31, 2019 | $ 5,095,785 | $9,976 | — | N/A |
| March 31, 2018 | 5,095,785 | 5,257 | — | N/A |
| March 31, 2017 | 5,095,785 | 6,613 | — | N/A |
| March 31, 2016 | 5,095,785 | 4,838 | — | N/A |
| March 31, 2015 | 5,095,785 | 2,301 | — | N/A |
| March 31, 2014 | 5,000,000 | 2,978 | — | N/A |
| March 31, 2013 | 5,000,000 | 2,725 | — | N/A |

(1) Total amount of each class of senior securities outstanding as of the dates presented.

(2) Asset coverage is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness (including interest payable and guaranties). Asset coverage per unit is the asset coverage ratio expressed in terms of dollar amounts per one thousand dollars of indebtedness.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

(4) Only applicable to our Term Preferred Stock because the other senior securities are not registered for public trading. Average market value per unit is the average of the closing price of the shares on Nasdaq during the last 10 trading days of the period.

(5) Our Series A Term Preferred Stock was issued in March 2012 and redeemed in September 2016.

(6) Our Series B Term Preferred Stock was issued in November 2014 and redeemed in August 2018.

(7) Our Series C Term Preferred Stock was issued in May 2015 and redeemed in August 2018.

(8) Our Series D Term Preferred Stock was issued in September 2016.

(9) Our Series E Term Preferred Stock was issued in August 2018.

(10) In August 2012, we entered into a participation agreement with a third-party related to $5.0 million of our secured second lien term debt investment in Ginsey Home Solutions, Inc. (“Ginsey”). In May 2014, we amended the agreement with the third-party to include an additional $0.1 million. Accounting Standards Codification Topic 860, “*Transfers and Servicing*” requires us to treat the participation as a financing-type transaction. Specifically, the third-party has a senior claim to our remaining investment in the event of default by Ginsey which, in part, resulted in the loan participation bearing a rate of interest lower than the contractual rate established at origination. Therefore, our *Consolidated Statements of Assets and Liabilities* reflect the entire secured second lien term debt investment in Ginsey and a corresponding $5.1 million secured borrowing liability. The secured borrowing has a stated fixed interest rate of 7.0% and a maturity date of January 3, 2021.

## ITEM 6. SELECTED FINANCIAL DATA

The following consolidated selected financial data as of and for the fiscal years ended March 31, 2019, 2018, 2017, 2016, and 2015, are derived from our accompanying audited *Consolidated Financial Statements*. The other data included in the second table below is unaudited. The data should be read in conjunction with our accompanying audited *Consolidated Financial Statements* and notes thereto and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" included elsewhere in this Annual Report.

### GLADSTONE INVESTMENT CORPORATION
### CONSOLIDATED SELECTED FINANCIAL AND OTHER DATA

| | Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** | **2015** |
| **Statement of Operations Data:** | | | | | |
| Total investment income | **$ 59,663** | $ 58,355 | $ 51,875 | $ 50,955 | $ 41,643 |
| Total expenses, net of credits from Adviser | **52,122** | 36,395 | 29,453 | 30,239 | 21,746 |
| Net investment income | **7,541** | 21,960 | 22,422 | 20,716 | 19,897 |
| Net realized and unrealized gain, net of taxes on deemed distribution of long-term capital gains | **74,049** | 38,727 | 22,341 | 4,138 | 30,317 |
| Net increase in net assets resulting from operations | **$ 81,590** | $ 60,687 | $ 44,763 | $ 24,854 | $ 50,214 |
| **Per Common Share Data:** | | | | | |
| Net increase in net assets resulting from operations per common share — basic and diluted(A) | **$ 2.49** | $ 1.88 | $ 1.48 | $ 0.82 | $ 1.88 |
| Net investment income per common share — basic and diluted(A) | **0.23** | 0.68 | 0.74 | 0.68 | 0.75 |
| Cash distributions declared per common share(B) | **0.93** | 0.89 | 0.75 | 0.75 | 0.77 |
| **Statement of Assets and Liabilities Data:** | | | | | |
| Total assets | **$ 635,100** | $ 610,899 | $ 515,195 | $ 506,260 | $ 483,521 |
| Net assets | **407,110** | 354,200 | 301,082 | 279,022 | 273,429 |
| Net asset value per common share | **12.40** | 10.85 | 9.95 | 9.22 | 9.18 |
| Common shares outstanding | **32,822,459** | 32,653,635 | 30,270,958 | 30,270,958 | 29,775,958 |
| Weighted common shares outstanding — basic and diluted | **32,807,597** | 32,268,776 | 30,270,958 | 30,268,253 | 26,665,821 |
| **Senior Securities Data:** | | | | | |
| Total borrowings, at cost(C) | **$ 58,096** | $ 112,096 | $ 74,796 | $ 100,096 | $ 123,896 |
| Mandatorily redeemable preferred stock(D) | **132,250** | 139,150 | 139,150 | 121,650 | 81,400 |

(A) Per share data is based on the weighted-average common stock outstanding for both basic and diluted.
(B) The tax character of distributions is determined on an annual basis. For further information on the estimated character of our distributions to common stockholders, refer to Note 9 — *Distributions to Common Stockholders* in the accompanying *Notes to Consolidated Financial Statements* included elsewhere in this Annual Report.
(C) Includes borrowings under the Credit Facility and other secured borrowings, as applicable.
(D) Represents the total liquidation preference of our mandatorily redeemable preferred stock.

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SELECTED FINANCIAL AND OTHER DATA (Continued)**

| | Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| **Other Unaudited Data:** | **2019** | **2018** | **2017** | **2016** | **2015** |
| Number of portfolio companies | **30** | 33 | 35 | 36 | 34 |
| Average size of portfolio company investment, at cost | **$ 19,656** | $17,723 | $15,005 | $14,392 | $ 14,861 |
| Principal amount of new investments | **57,761** | 59,424 | 54,370 | 69,380 | 108,197 |
| Proceeds from loan repayments and investments sold | **154,651** | 39,859 | 68,825 | 44,582 | 11,260 |
| Weighted-average yield on investments, excluding loans onnon-accrual status(A) | **13.04%** | 13.06% | 12.65% | 12.62% | 12.60% |
| Weighted-average yield on investments, including loans onnon-accrual status(B) | **11.80** | 12.35 | 12.44 | 12.33 | 12.12 |
| Total return(C) | **24.95** | 21.82 | 41.58 | 4.82 | 11.96 |

(A) Weighted-average yield on investments, excluding loans onnon-accrual status, equals interest income earned on investments divided by the weighted-average interest-bearing principal balance throughout the fiscal year.

(B) Weighted-average yield on investments, including loans onnon-accrual status, equals interest income earned on investments divided by the weighted-average total principal balance throughout the fiscal year.

(C) Total return equals the change in the ending market value of our common stock from the beginning of the fiscal year, assuming reinvestment of dividends on our common stock in accordance with the terms of the dividend reinvestment plan. Total return does not take into account common distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, refer to Note 9 — *Distributions to Common Stockholders* in the accompanying *Notes to Consolidated Financial Statements* included elsewhere in this Annual Report.

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

**The following analysis of our financial condition and results of operations should be read in conjunction with our accompanying *Consolidated Financial Statements* and the notes thereto contained elsewhere in this Annual Report. Historical financial condition and results of operations and percentage relationships among any amounts in the financial statements are not necessarily indicative of financial condition, results of operations or percentage relationships for any future periods. Except per share amounts, dollar amounts included herein are in thousands unless otherwise indicated.**

### OVERVIEW

#### General

We were incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005. On June 22, 2005, we completed our initial public offering and commenced operations. We operate as an externally managed, closed-end, non-diversified management investment company and have elected to be treated as a BDC under the 1940 Act. For U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Code. In order to continue to qualify as a RIC for U.S. federal income tax purposes and obtain favorable RIC tax treatment, we must meet certain requirements, including certain minimum distribution requirements.

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the U.S. Our investment objectives are to: (i) 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 (ii) provide our stockholders with long-term capital appreciation in the value of our assets by investing in equity securities of established businesses, generally, in combination with the aforementioned debt securities, that we believe can grow over time to permit us to sell our equity investments for capital gains. To achieve our investment objectives, our investment strategy is to invest in several categories of debt and equity securities, with individual investments generally totaling up 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 portfolio over time will consist of approximately 75% in debt securities and 25% in equity securities, at cost. As of March 31, 2019, our investment portfolio was made up of 75.1% in debt securities and 24.9% in equity securities, at cost.

We focus on investing in Lower Middle Market businesses in the U.S. that meet certain criteria, including the following: the sustainability of the business' free cash flow and its ability to grow it over time, adequate assets for loan collateral, experienced management teams with a significant ownership interest in the portfolio company, reasonable capitalization of the portfolio company, including an ample equity contribution or cushion based on prevailing enterprise valuation multiples, and the potential to realize appreciation and gain liquidity in our equity position, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the portfolio company, a public offering of the portfolio company's stock or, to a lesser extent, by exercising our right to require the portfolio company to repurchase our warrants, as applicable, though there can be no assurance that we will always have these rights. We invest in portfolio companies that need funds for growth capital, to finance acquisitions, including management buyouts, or to recapitalize or, to a lesser extent, refinance their existing debt facilities. We seek to avoid investing in high-risk, early-stage enterprises.

We invest by ourselves or jointly with other funds and/or management of the portfolio company, depending on the opportunity, and have opportunistically made several co-investments with our affiliate Gladstone Capital pursuant to the Co-Investment Order. We believe the Co-Investment Order has enhanced and will continue to enhance our ability to further our investment objectives and strategies. If we are participating in an investment with one or more co-investors, whether or not an affiliate of ours, our investment is likely to be smaller than if we were investing alone.

#### Business

*Portfolio Activity*

While the business environment remains competitive, we continue to see new investment opportunities consistent with our investment strategy of providing a combination of debt and equity in support of management and independent sponsor-led buyouts of Lower Middle Market companies in the U.S. During the year ended March 31, 2019, we exited five portfolio companies with a combined fair value prior to their exits of $131.4 million, and invested $57.8 million in two new portfolio companies, resulting in a net reduction of three companies in our portfolio, which was comprised of 30 companies as of March 31, 2019. From our initial public offering in June 2005 through March 31, 2019, we made investments in 49 companies, excluding investments in syndicated loans, for a total of approximately $1 billion, before giving effect to principal repayments and divestitures.

The majority of the debt securities in our portfolio have a success fee component, which enhances the yield on our debt investments. Unlike PIK income, we generally do not recognize success fees as income until payment has been received. Due to the contingent nature of success fees, there are no guarantees that we will be able to collect any or all of these success fees or know the timing of any such collections. As a result, as of March 31, 2019, we had unrecognized, contractual success fees of $30.1 million, or $0.92 per common share. Consistent with GAAP, we generally have not recognized success fee receivables and related income in our *Consolidated Financial Statements* until earned.

From inception through March 31, 2019, we completed sales of 16 portfolio companies that we acquired under our buyout strategy (which excludes investments in syndicated loans). In the aggregate, these sales have generated $185.9 million in net realized gains and $23.4 million in other income upon exit, for a total increase to our net assets of $209.3 million. We believe, in aggregate, these transactions were equity-oriented investment successes 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. The 16 liquidity events have offset any realized losses since inception, which were primarily incurred during the recession in connection with the sale of performing syndicated loans at a realized loss to pay off a former lender. These successful exits, in part, enabled us to increase the monthly distribution by 70.0% from March 2011 through March 31, 2019, and allowed us to declare and pay a $0.03 per common share supplemental distribution in fiscal year 2012, a $0.05 per common share supplemental distribution in November 2013, a $0.05 per common share supplemental distribution in December 2014, and a $0.06 per common share supplemental distribution in each of June 2017, December 2017, June 2018, and December 2018.

***Capital Raising Efforts***

We have been able to meet our capital needs through extensions of and increases to the Credit Facility and by accessing the capital markets in the form of public offerings of common and preferred stock. We have successfully extended the Credit Facility's revolving period multiple times, most recently to August 2021, and currently have a total commitment amount of $200.0 million (with a potential total commitment of $300.0 million through additional commitments of new or existing lenders). During the year ended March 31, 2019, we sold 168,824 shares of our common stock under our at-the-market program for gross proceeds of approximately $1.9 million. During the year ended March 31, 2018, we sold 127,412 shares of our common stock under our at-the-market program for gross proceeds of approximately $1.3 million. Additionally, we issued approximately 2.3 million shares of common stock for gross proceeds of $21.2 million in May 2017, inclusive of the June 2017 over-allotment, and approximately 3.0 million shares of our Series E Term Preferred Stock for gross proceeds of $74.8 million in August 2018. Refer to "*Liquidity and Capital Resources — Revolving Line of Credit*" for further discussion of the Credit Facility and to "*Liquidity and Capital Resources — Equity — Common Stock*" and "*Liquidity and Capital Resources — Equity — Term Preferred Stock*" for further discussion of our common stock, including ourat-the-market program, and mandatorily redeemable preferred stock.

Although we have been able to access the capital markets historically, market conditions may continue to affect the trading price of our common stock and thus our ability to finance new investments through the issuance of common equity. On March 31, 2019, the closing market price of our common stock was $11.60 per share, which represented a 6.5% discount to our March 31, 2019 NAV per share of $12.40. When our common stock trades below NAV, our ability to issue additional equity is constrained by provisions of the 1940 Act, which generally prohibits 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 2018 Annual Meeting of Stockholders held on August 9, 2018, our stockholders approved a proposal authorizing us to issue and sell shares of our common stock at a price below our then current NAV per share, subject to certain limitations, including that the number of common shares issued and sold pursuant to such authority does not exceed 25.0% of our then outstanding common stock immediately prior to each such sale, provided that our Board of Directors makes certain determinations prior to any such sale. This August 2018 stockholder authorization is in effect for one year from the date of stockholder approval. We sought and obtained stockholder approval concerning similar proposals at each Annual Meeting of Stockholders since 2008, and with our Board of Directors' subsequent approval, we issued shares of our common stock in three offerings at a price below the then current NAV per share, once in May 2017, once in March 2015, and once in October 2012. Certain sales under the at-the-market program in March 2018 and April 2018 were also below the then current estimated NAV per share. The resulting proceeds, in part, have allowed us to (i) grow our portfolio by making new investments, (ii) generate additional income through these new investments, (iii) ensure continued compliance with regulatory tests and (iv) increase our debt capital while still complying with our applicable debt-to-equity ratios. Refer to *"Liquidity and Capital Resources — Equity — Common Stock"* for further discussion of our common stock.

***Regulatory Compliance***

Our ability to seek external debt financing, to the extent that it is available under current market conditions, is further subject to the asset coverage limitations of the 1940 Act, which require us to have asset coverage (as defined in Sections 18 and 61 of the 1940 Act, as amended) of at least 150% on each of our senior securities representing indebtedness and our senior securities that are stock (such as our two series of term preferred stock).

On April 10, 2018, our Board of Directors, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act) thereof, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the Company's asset coverage requirements for senior securities changed from 200% to 150% effective April 10, 2019, one year after the date of the Board of Directors' approval. Under the 200% asset coverage standard prior to April 10, 2019, we were able to borrow debt or issue senior securities in the amount of $1.00 for every $1.00 of equity in the Company. Starting from April 10, 2019, under the 150% asset coverage standard, we may borrow debt or issue senior securities in the amount of $2.00 for every $1.00 of equity in the Company. Notwithstanding the modified asset coverage requirement under the 1940 Act described above, we are separately subject to a minimum asset coverage requirement of 200% with respect to our Series D Term Preferred Stock.

As of March 31, 2019, our asset coverage ratio on our senior securities representing indebtedness was 997.6% and our asset coverage on our senior securities that are stock (our Series D Term Preferred Stock and our Series E Term Preferred Stock) was 309.1%.

**Investment Highlights**

For the fiscal year ended March 31, 2019, and inclusive ofnon-cash transactions, we invested $57.8 million in two new portfolio companies, received $175.8 million in proceeds from repayments and sales, and extended $54.3 million of follow-on investments to existing portfolio companies through revolver draws, term loans, and additions to equity, as applicable.

***Investment Activity***

During the fiscal year ended March 31, 2019, the following significant transactions occurred:

- In April 2018, we invested $29.2 million in Bassett Creek Restoration, Inc. (d/b/a J.R. Johnson, LLC) ("Bassett Creek") through a combination of secured first lien debt and preferred equity. Bassett Creek, headquartered in Portland, Oregon, is a leading provider of commercial restoration and renovation services to the Oregon and Southwest Washington region.
- In June 2018, we sold our investment in Drew Foam Companies, Inc. ("Drew Foam"), which resulted in dividend and success fee income of $0.2 million and a realized gain of $13.8 million. In connection with the sale, we received net cash proceeds of $27.3 million, including the repayment of our debt investment of $9.9 million at par.
- In July 2018, we exited our investment in NDLI, Inc. ("NDLI") and recorded a realized loss of $3.6 million.
- In October 2018, we invested an additional $15.0 million of secured first lien debt into J.R. Hobbs, which together with our existing $21.0 million secured first lien term loan resulted in a new $36.0 million secured first lien term loan due in October 2023.
- In October 2018, we exited our equity investment in Country Club Enterprises, LLC ("CCE"), which resulted in a realized loss of $7.7 million. As part of this transaction, we received success fee income of $1.0 million, reduced our existing guaranty to $1.0 million, and amended our existing $4.0 million secured second lien term loan to have a stated interest rate of LIBOR + 8.0% and mature in February 2022.
- In November 2018, we sold our investment in Logo Sportswear, Inc. ("Logo"), which resulted in success fee income of $0.2 million and a realized gain of $13.0 million. In connection with the sale, we received net cash proceeds of $22.7 million, including the repayment of our debt investment of $9.2 million at par.
- In November 2018, we invested $28.6 million in Educators Resource, Inc. ("Educators Resource") through a combination of secured first lien debt and preferred equity. Educators Resource, headquartered in Semmes, Alabama, is a leading e-commerce wholesale distributor of supplemental teaching materials.

- In December 2018, we sold our investment in Cambridge Sound Management, Inc. (“Cambridge”), which resulted in success fee income of $0.4 million, dividend income of $0.1 million, and a realized gain of $65.7 million. In connection with the sale, we received net cash proceeds of $86.8 million, including the repayment of our debt investment of $16.0 million at par.
- In December 2018, we sold our investment in Star Seed, Inc. (“Star Seed”), which resulted in success fee income of $0.5 million and a realized gain of $5.4 million. In connection with the sale, we received net cash proceeds of $12.5 million, including the repayment of our debt investment of $5.0 million at par.
- In January 2019, we restructured two of our first lien term loans to SOG Specialty Knives & Tools, LLC (“SOG”) with a total cost basis of $18.4 million into a new $8.4 million first lien term loan, which resulted in a realized loss of $10.0 million. The new term loan has a stated interest rate of LIBOR + 4.0% and matures in August 2022. In addition, we invested $1.0 million of preferred equity in SOG.
- In March 2019, we restructured our existing second lien term loans and delayed draw term loan to The Mountain Corporation (“The Mountain”) with a total cost basis of $21.7 million into a new $11.7 million second lien term loan, which resulted in a realized loss of $10.0 million. The new term loan has a stated interest rate of LIBOR + 4.0% and matures in April 2024. In addition, we extended a new $2.9 million first lien line of credit to The Mountain of which $2.5 million was outstanding as of March 31, 2019. The line of credit has a stated interest rate of LIBOR + 5.0% and matures in April 2020.

The following significant investment activity occurred subsequent to March 31, 2019. Also refer to Note 15— *Subsequent Events* in the accompanying *Notes to Consolidated Financial Statements* included elsewhere in this Annual Report.

- In April 2019, we sold our investment in Tread Corporation (“Tread”), which had a cost basis and fair value of $7.7 million and $4.4 million, respectively, as of March 31, 2019. In connection with the sale, we received net cash proceeds of $4.4 million, including the repayment of our debt investment of $3.2 million at par.
- In April 2019, we sold our investment in Jackrabbit, Inc., which had a cost basis and fair value of $14.7 million and $19.2 million, respectively, as of March 31, 2019. In connection with the sale, we received net cash proceeds of $19.7 million, including the repayment of our debt investment of $11.0 million at par.
- In April and May 2019, we extended a line of credit to J.R. Hobbs with a total commitment amount of $10.0 million at a stated interest rate of LIBOR + 10.25%, which matures in October 2019.

## Recent Developments

***Distributions and Dividends***

In April 2019, our Board of Directors declared the following monthly and supplemental cash distributions to common stockholders and monthly dividends to holders of our Series D Term Preferred Stock and Series E Term Preferred Stock:

| Record Date | Payment Date | Distribution per Common Share | Dividend per Share of Series D Term Preferred Stock | Dividend per Share of Series E Term Preferred Stock |
|---|---|---|---|---|
| April 22, 2019 | April 30, 2019 | $0.068 | $0.13020833 | $0.13281250 |
| May 22, 2019 | May 31, 2019 | 0.068 | 0.13020833 | 0.13281250 |
| June 5, 2019 | June 14, 2019 | 0.090(A) | — | — |
| June 19, 2019 | June 28, 2019 | 0.068 | 0.13020833 | 0.13281250 |
| **Total for the Quarter:** | | **$0.294** | **$0.39062499** | **$0.39843750** |

(A) Represents a supplemental distribution to common stockholders.

**RESULTS OF OPERATIONS**

***Comparison of the Fiscal Year Ended March 31, 2019 to the Fiscal Year Ended March 31, 2018***

| | For the Fiscal Years Ended March 31, | | | |
|---|---|---|---|---|
| | **2019** | **2018** | **$ Change** | **% Change** |
| **INVESTMENT INCOME** | | | | |
| Interest income | **$ 49,632** | $48,799 | $ 833 | 1.7% |
| Dividend, success fee, and other income | **10,031** | 9,556 | 475 | 5.0 |
| Total investment income | **59,663** | 58,355 | 1,308 | 2.2 |
| **EXPENSES** | | | | |
| Base management fee | **12,752** | 10,796 | 1,956 | 18.1 |
| Loan servicing fee | **6,827** | 6,277 | 550 | 8.8 |
| Incentive fee | **22,254** | 10,648 | 11,606 | 109.0 |
| Administration fee | **1,312** | 1,087 | 225 | 20.7 |
| Interest and dividend expense | **14,894** | 13,039 | 1,855 | 14.2 |
| Amortization of deferred financing costs and discounts | **1,610** | 1,468 | 142 | 9.7 |
| Other | **4,809** | 3,031 | 1,778 | 58.7 |
| Expenses before credits from Adviser | **64,458** | 46,346 | 18,112 | 39.1 |
| Credits to fees from Adviser | **(12,336)** | (9,951) | (2,385) | 24.0 |
| Total expenses, net of credits to fees | **52,122** | 36,395 | 15,727 | 43.2 |
| **NET INVESTMENT INCOME** | **7,541** | 21,960 | (14,419) | (65.7) |
| **REALIZED AND UNREALIZED GAIN (LOSS), NET OF TAXES** | | | | |
| Net realized gain on investments | **68,556** | 1,336 | 67,220 | NM |
| Taxes on deemed distribution of long-term capital gains | **(13,500)** | — | (13,500) | NM |
| Net realized loss on other | **(1,687)** | — | (1,687) | NM |
| Net unrealized appreciation of investments | **20,180** | 37,891 | (17,711) | (46.7) |
| Net unrealized depreciation (appreciation) of other | **500** | (500) | 1,000 | (200.0) |
| Net realized and unrealized gain, net of taxes on deemed distribution of long-term capital gains | **74,049** | 38,727 | 35,322 | 91.2 |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | **$ 81,590** | $60,687 | $ 20,903 | 34.4% |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | | |
| Net investment income | **$ 0.23** | $ 0.68 | $ (0.45) | (66.2)% |
| Net increase in net assets resulting from operations | **2.49** | 1.88 | 0.61 | 32.4 |

*NM = Not Meaningful*

**Investment Income**

Total investment income increased by 2.2% for the year ended March 31, 2019 as compared to the prior year. This increase was due to increases in both interest income and dividend, success fee, and other income.

Interest income from our investments in debt securities increased 1.7% for the year ended March 31, 2019 as compared to the prior year. Generally, the level of interest income from investments is directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted-average yield. The weighted-average principal balance of our interest-bearing investment portfolio during the year ended March 31, 2019 was $380.2 million, compared to $373.4 million during the prior year. This increase was primarily due to the origination of $44.3 million of new debt investments and $51.7 million of follow-on debt investments to existing portfolio companies and $16.5 million of loans placed back on accrual status after March 31, 2018, partially offset by the pay-off or restructure of $65.3 million of debt investments and $68.3 million of loans placed on non-accrual status, and their respective impact on the weighted-average principal balance when considering the timing of new investments,pay-offs, restructures, and accrual status changes, as applicable. The weighted-average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as other income, was 13.0% and 13.1% for the year ended March 31, 2019 and 2018, respectively. The weighted-average yield may vary from period to period, based on the current stated interest rate on interest-bearing investments.

At March 31, 2019, certain of our loans toB-Dry, LLC (“B-Dry”), Meridian Rack & Pinion, Inc. (“Meridian”), The Mountain, PSI Molded Plastics, Inc. (“PSI Molded”), and SOG were on non-accrual status, with an aggregate debt cost basis of $68.3 million. At March 31, 2018, certain of our loans to two portfolio companies, Alloy Die Casting (“ADC”) and Tread, were on non-accrual status, with an aggregate debt cost basis of $15.6 million.

Dividend, success fee, and other income for the year ended March 31, 2019 increased 5.0% from the prior year. During the year ended March 31, 2019, dividend, success fee, and other income primarily consisted of $3.9 million of dividend income and $6.1 million of success fee income. During the year ended March 31, 2018, dividend, success fee, and other income primarily consisted of $4.2 million of dividend income and $5.3 million of success fee income.

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

| | As of March 31, 2019 | | Year Ended March 31, 2019 | |
|---|---|---|---|---|
| Company | Fair Value | % of Portfolio | Investment Income | % of Total Investment Income |
| Nth Degree, Inc. | $ 60,249 | 9.7% | $ 5,139 | 8.6% |
| J.R. Hobbs Co. – Atlanta, LLC | 53,822 | 8.6 | 4,317 | 7.2 |
| Brunswick Bowling Products, Inc. | 41,448 | 6.6 | 2,535 | 4.3 |
| Counsel Press, Inc. | 40,220 | 6.4 | 3,396 | 5.7 |
| Pioneer Square Brands, Inc. | 32,060 | 5.1 | 3,157 | 5.3 |
| **Subtotal — five largest investments** | **227,799** | **36.4** | **18,544** | **31.1** |
| Other portfolio companies | 396,373 | 63.6 | 41,079 | 68.9 |
| **Total investment portfolio** | **$624,172** | **100.0%** | **$ 59,623** | **100.0%** |

| | As of March 31, 2018 | | Year Ended March 31, 2018 | |
|---|---|---|---|---|
| Company | Fair Value | % of Portfolio | Investment Income | % of Total Investment Income |
| Cambridge Sound Management, Inc.(A) | $ 42,178 | 7.0% | $ 3,383 | 5.8% |
| Nth Degree, Inc. | 39,714 | 6.6 | 2,636 | 4.5 |
| J.R. Hobbs Co. – Atlanta, LLC | 35,480 | 5.9 | 3,386 | 5.8 |
| Brunswick Bowling Products, Inc. | 34,315 | 5.7 | 2,239 | 3.8 |
| ImageWorks Display and Marketing Group, Inc.(B) | 31,722 | 5.3 | 1,080 | 1.9 |
| **Subtotal — five largest investments** | **183,409** | **30.5** | **12,724** | **21.8** |
| Other portfolio companies | 415,738 | 69.5 | 45,610 | 78.2 |
| **Total investment portfolio** | **$599,147** | **100.0%** | **$ 58,334** | **100.0%** |

(A) Investment exited subsequent to March 31, 2018.
(B) New investment during the applicable year.

**Expenses**

Total expenses, net of any non-contractual, unconditional, and irrevocable credits from the Adviser, increased 43.2% for the year ended March 31, 2019, as compared to the prior year, primarily due to an increase in the capital gains-based incentive fee, the base management fee, interest and dividend expense, and other expenses.

In accordance with GAAP, we recorded a capital gains-based incentive fee of $17.8 million and $4.4 million during the year ended March 31, 2019 and March 31, 2018, respectively, which were not contractually due under the terms of the Advisory Agreement. The capital gains-based incentive fee was a result of the net impact of net realized gains (losses) and net unrealized appreciation (depreciation) on investments during the respective periods. The income-based incentive fee decreased for the year ended March 31, 2019, as compared to the prior year, as the increase in net assets, which drives the hurdle rate, more than offset the increase in pre-incentive fee net investment income during the respective periods.

The base management fee increased for the year ended March 31, 2019, as compared to the prior year, as average total assets increased over the respective periods as a result of an increase in investments at fair value.

The base management fee, loan servicing fee, incentive fee, and their relatednon-contractual, unconditional, and irrevocable credits are computed quarterly, as described under "*Transactions with the Adviser*" in Note 4 – *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* and are summarized in the following table:

| | Year Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Average total assets subject to base management fee(A) | **$637,600** | $539,800 |
| Multiplied by annual base management fee of 2.0% | **2.0%** | 2.0% |
| **Base management fee(B)** | **12,752** | 10,796 |
| Credits to fees from Adviser — other(B) | **(5,509)** | (3,674) |
| **Net base management fee** | **$ 7,243** | $ 7,122 |
| **Loan servicing fee(B)** | **$ 6,827** | $ 6,277 |
| Credits to base management fee — loan servicing fee(B) | **(6,827)** | (6,277) |
| **Net loan servicing fee** | **$ —** | $ — |
| **Incentive fee – income-based** | **$ 4,419** | $ 6,249 |
| **Incentive fee – capital gains-based(C)** | **17,835** | 4,399 |
| **Total incentive fee(B)** | **22,254** | 10,648 |
| Credits to fees from Adviser — other(B) | — | — |
| **Net total incentive fee** | **$ 22,254** | $ 10,648 |

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

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

(C) The capital gains-based incentive fee is not yet contractually due under the terms of the Advisory Agreement.

Interest and dividend expense increased 14.2% during the year ended March 31, 2019, as compared to the prior year, primarily due to an increase in interest expense as a result of a higher weighted-average balance outstanding on the Credit Facility and slightly higher costs of borrowings under the Credit Facility as the increase in LIBOR more than offset the reduced interest rate margin after the amendment of the Credit Facility in August 2018. The effective interest rate on the Credit Facility, excluding the impact of deferred financing costs, during the year ended March 31, 2019 was 5.9%, as compared to 5.4% in the prior year. The weighted-average balance outstanding on the Credit Facility during the year ended March 31, 2019 was $97.9 million, as compared to $67.8 million in the prior year. Refer to *"Liquidity and Capital Resources — Revolving Line of Credit"* for further discussion of the Credit Facility. Refer to "*Liquidity and Capital Resources – Equity – Term Preferred Stock"* for further discussion of the mandatorily redeemable preferred stock.

Other expenses increased 58.7% primarily due to an increase in bad debt expense of $1.4 million largely driven by accrual status changes in the current year.

**Realized and Unrealized Gain (Loss), net of Taxes**

*Net Realized Gain on Investments*

During the year ended March 31, 2019, we recorded net realized gains on investments of $68.6 million, primarily related to a $65.7 million realized gain from the exit of Cambridge, a $13.8 million realized gain from the exit of Drew Foam, a $13.0 million realized gain from the exit of Logo, and a $5.4 million realized gain from the exit of Star Seed, partially offset by a $10.0 million realized loss from the restructure of our debt investments in The Mountain, a $10.0 million realized loss from the restructure of our debt investments in SOG, a $7.7 million realized loss from the exit of our equity investment in CCE and a $3.6 million realized loss from the exit of NDLI. During the year ended March 31, 2018, we recorded a net realized gain on investments of $1.3 million, primarily related to a $1.0 million realized gain from the exit of Mitchell Rubber Products, Inc. ("Mitchell").

*Taxes on Deemed Distribution of Long-Term Capital Gains*

For the year ended March 31, 2019, we elected to retain $50.0 million of long-term capital gains and to treat them as deemed distributions to common stockholders. We incurred $10.5 million of federal taxes on behalf of common stockholders for the year ended March 31, 2019. In addition, we recorded a reserve for uncertain tax positions related to potential Virginia state tax exposure related to the deemed distribution of $3.0 million for the year ended March 31, 2019. Refer to Note 9 — *Distributions to Common Stockholders* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

*Net Realized Loss on Other*

During the year ended March 31, 2019, we recorded a net realized loss on other of $1.7 million which primarily related to unamortized deferred issuance costs written off upon the redemption of our 6.750% Series B Cumulative Term Preferred Stock (our "Series B Term Preferred Stock") and 6.500% Series C Cumulative Term Preferred Stock (our "Series C Term Preferred Stock") in August 2018. There were no realized gains or losses on other during the year ended March 31, 2018.

*Net Unrealized Appreciation of Investments*

During the year ended March 31, 2019, we recorded net unrealized appreciation of investments of $20.2 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2019 were as follows:

| Portfolio Company | Year Ended March 31, 2019<br>Realized Gain (Loss) | Unrealized Appreciation (Depreciation) | Reversal of Unrealized (Appreciation) Depreciation | Net Gain (Loss) |
|---|---|---|---|---|
| Cambridge Sound Management, Inc. | $ 66,012 | $ 25,533 | $ (47,211) | $ 44,334 |
| Nth Degree, Inc. | — | 20,534 | — | 20,534 |
| Alloy Die Casting Co. | — | 12,287 | — | 12,287 |
| Counsel Press, Inc. | — | 10,417 | — | 10,417 |
| Brunswick Bowling Products, Inc. | — | 7,132 | — | 7,132 |
| SBS Industries, LLC | — | 6,990 | — | 6,990 |
| Jackrabbit, Inc. | — | 5,680 | — | 5,680 |
| Old World Christmas, Inc. | — | 5,498 | — | 5,498 |
| Schylling, Inc. | — | 4,256 | — | 4,256 |
| Star Seed, Inc. | 5,523 | 5,400 | (6,865) | 4,058 |
| Logo Sportswear, Inc. | 13,013 | 2,795 | (11,906) | 3,902 |
| J.R. Hobbs Co. – Atlanta, LLC | — | 3,342 | — | 3,342 |
| Ginsey Home Solutions, Inc. | — | 3,289 | — | 3,289 |
| Educators Resource, Inc. | — | 1,462 | — | 1,462 |
| Funko Acquisition Holdings, LLC | 962 | 694 | (450) | 1,206 |
| Pioneer Square Brands, Inc. | — | 1,160 | — | 1,160 |
| NDLI, Inc. | (3,606) | — | 3,600 | (6) |
| Drew Foam Companies, Inc. | 14,047 | — | (14,755) | (708) |
| Country Club Enterprises, LLC | (7,726) | (92) | 6,727 | (1,091) |
| Edge Adhesives Holdings, Inc. | — | (1,682) | — | (1,682) |
| D.P.M.S., Inc. | — | (1,913) | — | (1,913) |
| Tread Corporation | — | (2,195) | — | (2,195) |
| Meridian Rack & Pinion, Inc. | — | (3,024) | — | (3,024) |
| B-Dry, LLC | — | (3,932) | — | (3,932) |
| Bassett Creek Restoration, Inc. | — | (4,900) | — | (4,900) |
| The Mountain Corporation | (10,000) | (6,622) | 10,000 | (6,622) |
| SOG Specialty Knives & Tools, LLC | (10,000) | (7,525) | 9,635 | (7,890) |
| PSI Molded Plastics, Inc. | — | (13,743) | — | (13,743) |
| Other, net (<$1.0 million, net) | 331 | 564 | — | 895 |
| **Total** | **$ 68,556** | **$ 71,405** | **$ (51,225)** | **$ 88,736** |

The primary drivers of net unrealized appreciation of investments of $20.2 million for the year ended March 31, 2019 were increased performance of certain of our portfolio companies, an increase in comparable multiples used to estimate the fair value of certain of our portfolio companies, and the reversal of previously recorded unrealized depreciation of certain investments upon their exit or restructure, partially offset by the reversal of previously recorded unrealized appreciation upon the exit of certain of our investments and a decline in performance of certain of our other portfolio companies.

During the year ended March 31, 2018, we recorded net unrealized appreciation of investments of $37.9 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2018 were as follows:

| | Year Ended March 31, 2018 | | | |
|---|---|---|---|---|
| Portfolio Company | Realized Gain (Loss) | Unrealized Appreciation (Depreciation) | Reversal of Unrealized (Appreciation) Depreciation | Net Gain (Loss) |
| Cambridge Sound Management, Inc. | $ — | $ 15,132 | $ — | $ 15,132 |
| Nth Degree, Inc. | — | 13,953 | — | 13,953 |
| J.R. Hobbs Co. — Atlanta, LLC | — | 8,560 | — | 8,560 |
| Ginsey Home Solutions, Inc. | — | 5,380 | — | 5,380 |
| Brunswick Bowling Products, Inc. | — | 5,286 | — | 5,286 |
| Tread Corporation | — | 4,534 | — | 4,534 |
| Precision Southeast, Inc. | — | 2,776 | 1,054 | 3,830 |
| Star Seed, Inc. | — | 3,290 | — | 3,290 |
| Old World Christmas, Inc. | — | 3,276 | — | 3,276 |
| Frontier Packaging, Inc. | — | 3,121 | — | 3,121 |
| Drew Foam Companies, Inc. | — | 2,865 | — | 2,865 |
| ImageWorks Display and Marketing Group, Inc. | — | 2,673 | — | 2,673 |
| Mathey Investments, Inc. | — | — | 2,658 | 2,658 |
| Pioneer Square Brands, Inc. | — | 2,300 | — | 2,300 |
| SBS Industries, LLC | — | 1,974 | — | 1,974 |
| Acme Cryogenics, Inc. | 236 | — | — | 236 |
| Schylling, Inc. | — | (262) | — | (262) |
| Logo Sportswear, Inc. | — | (509) | — | (509) |
| GI Plastek, Inc. | — | (1,856) | 1,252 | (604) |
| B-Dry, LLC | — | (873) | — | (873) |
| Alloy Die Casting Co. | — | (875) | — | (875) |
| Jackrabbit, Inc. | — | (903) | — | (903) |
| Mitchell Rubber Products, Inc. | 982 | — | (2,783) | (1,801) |
| Meridian Rack & Pinion, Inc. | — | (2,716) | — | (2,716) |
| Head Country, Inc. | — | (3,197) | — | (3,197) |
| Galaxy Tool Holding Corporation | — | (3,785) | — | (3,785) |
| SOG Specialty Knives & Tools, LLC | — | (4,182) | — | (4,182) |
| Country Club Enterprises, LLC | — | (4,246) | — | (4,246) |
| PSI Molded Plastics, Inc. | — | (5,964) | — | (5,964) |
| The Mountain Corporation | — | (10,061) | — | (10,061) |
| Other, net (<$250, net) | 118 | (128) | 147 | 137 |
| **Total** | **$ 1,336** | **$ 35,563** | **$ 2,328** | **$ 39,227** |

The primary drivers of net unrealized appreciation of investments of $37.9 million for the year ended March 31, 2018 were increased performance of certain of our portfolio companies and an increase in comparable multiples used to estimate the fair value of certain of our portfolio companies, partially offset by the reversal of previously recorded unrealized appreciation upon the exit of our investment in Mitchell and a decline in performance of certain of our other portfolio companies.

Across our entire investment portfolio, we recorded $7.8 million of net unrealized depreciation on our debt positions and $28.0 million of net unrealized appreciation on our equity holdings for the year ended March 31, 2019. At March 31, 2019, the fair value of our investment portfolio was greater than our cost basis by $34.5 million, as compared to March 31, 2018, when the fair value of our investment portfolio was greater than our cost basis by $14.3 million, representing net unrealized appreciation of $20.2 million for the year ended March 31, 2019. Our entire portfolio was fair valued at 105.8% of cost as of March 31, 2019.

*Net Unrealized Depreciation (Appreciation) on Other*

During the year ended March 31, 2019, we recorded net unrealized depreciation of other of $0.5 million related to the Credit Facility recorded at fair value. During the year ended March 31, 2018, we recorded net unrealized appreciation of other of $0.5 million related to the Credit Facility recorded at fair value.

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***Comparison of the Fiscal Year Ended March 31, 2018 to the Fiscal Year Ended March 31, 2017***

| | For the Fiscal Years Ended March 31, | | | |
|---|---|---|---|---|
| | **2018** | **2017** | **$ Change** | **% Change** |
| **INVESTMENT INCOME** | | | | |
| Interest income | **$48,799** | $ 46,147 | $ 2,652 | 5.7% |
| Dividend, success fee, and other income | **9,556** | 5,728 | 3,828 | 66.8 |
| Total investment income | **58,355** | 51,875 | 6,480 | 12.5 |
| **EXPENSES** | | | | |
| Base management fee | **10,796** | 9,925 | 871 | 8.8 |
| Loan servicing fee | **6,277** | 6,606 | (329) | (5.0) |
| Incentive fee | **10,648** | 4,750 | 5,898 | 124.2 |
| Administration fee | **1,087** | 1,120 | (33) | (2.9) |
| Interest and dividend expense | **13,039** | 12,223 | 816 | 6.7 |
| Amortization of deferred financing costs and discounts | **1,468** | 1,875 | (407) | (21.7) |
| Other | **3,031** | 3,066 | (35) | (1.1) |
| Expenses before credits from Adviser | **46,346** | 39,565 | 6,781 | 17.1 |
| Credits to fees from Adviser | **(9,951)** | (10,112) | 161 | (1.6) |
| Total expenses, net of credits to fees | **36,395** | 29,453 | 6,942 | 23.6 |
| **NET INVESTMENT INCOME** | **21,960** | 22,422 | (462) | (2.1) |
| **REALIZED AND UNREALIZED GAIN (LOSS)** | | | | |
| Net realized gain on investments | **1,336** | 15,641 | (14,305) | (91.5) |
| Net realized loss on other | **—** | (254) | 254 | (100.0) |
| Net unrealized appreciation of investments | **37,891** | 6,879 | 31,012 | 450.8 |
| Net unrealized appreciation of other | **(500)** | 75 | (575) | NM |
| Net realized and unrealized gain | **38,727** | 22,341 | 16,386 | 73.3 |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | **$60,687** | $ 44,763 | $ 15,924 | 35.6% |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | | |
| Net investment income | **$ 0.68** | $ 0.74 | $ (0.06) | (8.1)% |
| Net increase in net assets resulting from operations | **1.88** | 1.48 | 0.40 | 27.0 |

*NM = Not Meaningful*

**Investment Income**

Total investment income increased by 12.5% for the year ended March 31, 2018 as compared to the prior year. This increase was due to increases in both interest income and other income for the year ended March 31, 2018 as compared to the prior year.

Interest income from our investments in debt securities increased 5.7% for the year ended March 31, 2018 as compared to the prior year. The level of interest income from investments is generally directly related to the principal balance of our interest-bearing investment portfolio outstanding during the period multiplied by the weighted-average yield. The weighted-average principal balance of our interest-bearing investment portfolio during the year ended March 31, 2018, was $373.4 million, compared to $364.7 million for the prior year. This increase was primarily due to $47.2 million in new debt investments and $68.8 million in follow-on debt investments to existing portfolio companies originated after March 31, 2017, partially offset by the pay-off or restructure of $65.3 million of debt investments principally related to the exit, merger, or restructure of portfolio companies, and their respective impact on the weighted-average principal balance when considering the timing of new investments, pay-offs, mergers, restructures, and non-accruals, as applicable. The weighted-average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as other income, was 13.1% and 12.7% for the year ended March 31, 2018 and 2017, respectively. The weighted-average yield may vary from period to period, based on the current stated interest rate on interest-bearing investments.

At March 31, 2018, and March 31, 2017, certain of our loans to two portfolio companies, ADC and Tread, were on non-accrual status, with an aggregate debt cost basis of $15.6 million as of both periods.

Dividend, success fee, and other income for the year ended March 31, 2018 increased 66.8% from the prior year. During the year ended March 31, 2018, dividend, success fee, and other income primarily consisted of $4.2 million of dividend income and $5.3 million of success fee income. During the year ended March 31, 2017, dividend, success fee, and other income primarily consisted of $3.3 million of dividend income and $2.4 million of success fee income.

The following table lists the investment income and fair values for our five largest portfolio company investments, at fair value, as of the end and during the respective fiscal years:

| | As of March 31, 2018 | | Year Ended March 31, 2018 | |
|---|---|---|---|---|
| **Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| Cambridge Sound Management, Inc. | $ 42,178 | 7.0% | $ 3,383 | 5.8% |
| Nth Degree, Inc. | 39,714 | 6.6 | 2,636 | 4.5 |
| J.R. Hobbs Co. – Atlanta, LLC | 35,480 | 5.9 | 3,386 | 5.8 |
| Brunswick Bowling Products, Inc. | 34,315 | 5.7 | 2,239 | 3.8 |
| ImageWorks Display and Marketing Group, Inc.(A) | 31,722 | 5.3 | 1,080 | 1.9 |
| **Subtotal — five largest investments** | **183,409** | **30.5** | **12,724** | **21.8** |
| Other portfolio companies | 415,738 | 69.5 | 45,610 | 78.2 |
| **Total investment portfolio** | **$599,147** | **100.0%** | **$ 58,334** | **100.0%** |

| | As of March 31, 2017 | | Year Ended March 31, 2017 | |
|---|---|---|---|---|
| **Company** | **Fair Value** | **% of Portfolio** | **Investment Income** | **% of Total Investment Income** |
| J.R. Hobbs Co. – Atlanta, LLC(A) | $ 29,870 | 6.0% | $ 359 | 0.7% |
| Counsel Press, Inc. | 29,617 | 5.9 | 3,118 | 6.0 |
| Cambridge Sound Management, Inc. | 27,046 | 5.4 | 2,065 | 4.0 |
| Nth Degree, Inc. | 25,761 | 5.1 | 1,684 | 3.2 |
| Drew Foam Companies, Inc. | 25,242 | 5.0 | 1,666 | 3.2 |
| **Subtotal — five largest investments** | **137,536** | **27.4** | **8,892** | **17.1** |
| Other portfolio companies | 364,043 | 72.6 | 42,980 | 82.9 |
| **Total investment portfolio** | **$501,579** | **100.0%** | **$ 51,872** | **100.0%** |

(A) New investment during the applicable year.

**Expenses**

Total expenses, net of any non-contractual, unconditional, and irrevocable credits from the Adviser, increased 23.6% for the year ended March 31, 2018, as compared to the prior year, primarily due to an increase in the incentive fee, the base management fee, and interest and dividend expense, partially offset by a decrease in amortization of deferred financing fees and discounts.

The income-based incentive fee increased for the year ended March 31, 2018, as compared to the prior year, as pre-incentive fee net investment income increased, partially offset by an increase in net assets, which drives the hurdle rate. Additionally, in accordance with GAAP, we recorded a capital gains-based incentive fee of $4.4 million during the year ended March 31, 2018, which was not contractually due under the terms of the Advisory Agreement. The capital gains-based incentive fee was a result of the net impact of net realized gains (losses) and net unrealized appreciation (depreciation) on investments during the respective periods. There was no capital gains-based incentive fee recorded or paid during the prior year.

The base management fee increased for the year ended March 31, 2018, as compared to the prior year, as average total assets increased over the period.

The base management fee, loan servicing fee, incentive fee, and their related non-contractual, unconditional, and irrevocable credits are computed quarterly, as described under "*Transactions with the Adviser*" in Note 4 – *Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements* and are summarized in the following table:

| | Year Ended March 31, | |
|---|---|---|
| | **2018** | **2017** |
| Average total assets subject to base management fee(A) | **$539,800** | $496,250 |
| Multiplied by annual base management fee of 2.0% | **2.0%** | 2.0% |
| **Base management fee(B)** | **10,796** | 9,925 |
| Credits to fees from Adviser — other(B) | **(3,674)** | (3,506) |
| **Net base management fee** | **$ 7,122** | $ 6,419 |
| **Loan servicing fee(B)** | **$ 6,277** | $ 6,606 |
| Credits to base management fee — loan servicing fee(B) | **(6,277)** | (6,606) |
| **Net loan servicing fee** | **$ —** | $ — |
| **Incentive fee – income-based** | **$ 6,249** | $ 4,750 |
| **Incentive fee – capital gains-based(C)** | **4,399** | — |
| **Total incentive fee(B)** | **10,648** | 4,750 |
| Credits to fees from Adviser — other(B) | **—** | — |
| **Net total incentive fee** | **$ 10,648** | $ 4,750 |

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

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

(C) The capital gains-based incentive fee is not yet contractually due under the terms of the Advisory Agreement.

Interest and dividend expense increased 6.7% during the year ended March 31, 2018, as compared to the prior year, primarily due to higher costs of borrowings under the Credit Facility. The effective interest rate on the Credit Facility, excluding the impact of deferred financing costs, during the year ended March 31, 2018 was 5.4%, as compared to 4.7% in the prior year. Dividends on our mandatorily redeemable preferred stock increased $0.3 million in the current year, when the Series D Term Preferred Stock was outstanding for the entire year, as compared to the prior year, when the Series D Term Preferred Stock was newly issued and only outstanding for a portion of the period and the 7.125% Series A Cumulative Term Preferred Stock (our "Series A Term Preferred Stock" or "Series A") was outstanding until September 2016.

Amortization of deferred financing costs and discounts decreased 21.7% for the year ended March 31, 2018, as compared to the prior year, primarily as a result of the write-off of previously deferred costs in the prior year related to the Credit Facility's amendment in November 2016.

**Realized and Unrealized Gain (Loss)**

*Net Realized Gain on Investments*

During the year ended March 31, 2018, we recorded a net realized gain on investments of $1.3 million, primarily related to a $1.0 million realized gain from the exit of Mitchell, compared to net realized gains on investments of $15.6 million during the prior year period, primarily related to an $18.9 million realized gain from the exit of Acme Cryogenics, Inc. ("Acme"), a $5.9 million realized gain from the exit of Behrens Manufacturing, LLC ("Behrens"), and a $1.3 million realized gain related to an additional earn-out from Funko, LLC, which was exited during the fiscal year ended March 31, 2016, partially offset by a $10.2 million realized loss from the restructure of D.P.M.S., Inc. ("Danco").

*Net Realized Loss on Other*

There were no realized gains or losses on other during the year ended March 31, 2018. During the year ended March 31, 2017, we recorded a net realized loss on other of $0.3 million, of which $0.2 million related to the redemption of our Series A Term Preferred Stock in September 2016 and $0.1 million related to the expiration of our interest rate cap agreement in April 2016.

*Net Unrealized Appreciation of Investments*

During the year ended March 31, 2018, we recorded net unrealized appreciation of investments of $37.9 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2018 were as follows:

| | Year Ended March 31, 2018 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized Gain (Loss)** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized (Appreciation) Depreciation** | **Net Gain (Loss)** |
| Cambridge Sound Management, Inc. | $ — | $ 15,132 | $ — | $ 15,132 |
| Nth Degree, Inc. | — | 13,953 | — | 13,953 |
| J.R. Hobbs Co. — Atlanta, LLC | — | 8,560 | — | 8,560 |
| Ginsey Home Solutions, Inc. | — | 5,380 | — | 5,380 |
| Brunswick Bowling Products, Inc. | — | 5,286 | — | 5,286 |
| Tread Corporation | — | 4,534 | — | 4,534 |
| Precision Southeast, Inc. | — | 2,776 | 1,054 | 3,830 |
| Star Seed, Inc. | — | 3,290 | — | 3,290 |
| Old World Christmas, Inc. | — | 3,276 | — | 3,276 |
| Frontier Packaging, Inc. | — | 3,121 | — | 3,121 |
| Drew Foam Companies, Inc. | — | 2,865 | — | 2,865 |
| ImageWorks Display and Marketing Group, Inc. | — | 2,673 | — | 2,673 |
| Mathey Investments, Inc. | — | — | 2,658 | 2,658 |
| Pioneer Square Brands, Inc. | — | 2,300 | — | 2,300 |
| SBS Industries, LLC | — | 1,974 | — | 1,974 |
| Acme Cryogenics, Inc. | 236 | — | — | 236 |
| Schylling, Inc. | — | (262) | — | (262) |
| Logo Sportswear, Inc. | — | (509) | — | (509) |
| GI Plastek, Inc. | — | (1,856) | 1,252 | (604) |
| B-Dry, LLC | — | (873) | — | (873) |
| Alloy Die Casting Co. | — | (875) | — | (875) |
| Jackrabbit, Inc. | — | (903) | — | (903) |
| Mitchell Rubber Products, Inc. | 982 | — | (2,783) | (1,801) |
| Meridian Rack & Pinion, Inc. | — | (2,716) | — | (2,716) |
| Head Country, Inc. | — | (3,197) | — | (3,197) |
| Galaxy Tool Holding Corporation | — | (3,785) | — | (3,785) |
| SOG Specialty Knives & Tools, LLC | — | (4,182) | — | (4,182) |
| Country Club Enterprises, LLC | — | (4,246) | — | (4,246) |
| PSI Molded Plastics, Inc. | — | (5,964) | — | (5,964) |
| The Mountain Corporation | — | (10,061) | — | (10,061) |
| Other, net (<$250, net) | 118 | (128) | 147 | 137 |
| **Total** | **$ 1,336** | **$ 35,563** | **$ 2,328** | **$ 39,227** |

The primary drivers of net unrealized appreciation of investments of $37.9 million for the year ended March 31, 2018 were increased performance of certain of our portfolio companies and an increase in comparable multiples used to estimate the fair value of certain of our portfolio companies, partially offset by the reversal of previously recorded unrealized appreciation upon the exit of our investment in Mitchell and a decline in performance of certain of our other portfolio companies.

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During the year ended March 31, 2017, we recorded net unrealized appreciation of investments of $6.9 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the year ended March 31, 2017 were as follows:

| | Year Ended March 31, 2017 | | | |
|---|---|---|---|---|
| **Portfolio Company** | **Realized Gain (Loss)** | **Unrealized Appreciation (Depreciation)** | **Reversal of Unrealized (Appreciation) Depreciation** | **Net Gain (Loss)** |
| Mitchell Rubber Products, Inc. | $ — | $ 14,079 | $ — | $ 14,079 |
| Logo Sportswear, Inc. | — | 8,375 | — | 8,375 |
| Galaxy Tool Holding Corporation | — | 6,242 | — | 6,242 |
| Brunswick Bowling Products, Inc. | — | 6,062 | — | 6,062 |
| Head Country, Inc. | — | 5,752 | — | 5,752 |
| Drew Foam Companies, Inc. | — | 5,287 | — | 5,287 |
| Nth Degree, Inc. | — | 4,760 | — | 4,760 |
| Old World Christmas, Inc. | — | 2,975 | — | 2,975 |
| Ginsey Home Solutions, Inc. | — | 2,362 | — | 2,362 |
| Meridian Rack & Pinion, Inc. | — | 1,757 | — | 1,757 |
| Edge Adhesives Holdings, Inc. | — | 1,628 | — | 1,628 |
| Funko Acquisition Holdings, LLC | 1,087 | 36 | — | 1,123 |
| Diligent Delivery Systems | — | 907 | — | 907 |
| Counsel Press, Inc. | — | 717 | — | 717 |
| Behrens Manufacturing, LLC | 5,935 | 1,820 | (7,491) | 264 |
| Auto Safety House, LLC | — | 146 | (457) | (311) |
| SBS Industries, LLC | — | (794) | — | (794) |
| Frontier Packaging, Inc. | — | (843) | — | (843) |
| AquaVenture Holdings Limited | — | (925) | — | (925) |
| B-Dry, LLC | — | (987) | — | (987) |
| D.P.M.S., Inc. | (10,226) | (3,848) | 12,601 | (1,473) |
| Tread Corporation | — | (1,737) | — | (1,737) |
| Cambridge Sound Management, Inc. | — | (1,789) | — | (1,789) |
| Mathey Investments, Inc. | — | (1,934) | — | (1,934) |
| Jackrabbit, Inc. | — | (1,984) | — | (1,984) |
| Acme Cryogenics, Inc. | 18,904 | — | (21,216) | (2,312) |
| Alloy Die Casting Co. | — | (3,283) | — | (3,283) |
| Schylling, Inc. | — | (3,842) | — | (3,842) |
| Precision Southeast, Inc. | — | (3,922) | — | (3,922) |
| The Mountain Corporation | — | (6,747) | — | (6,747) |
| SOG Specialty Knives & Tools, LLC | — | (7,036) | — | (7,036) |
| Other, net (<$250, net) | (59) | 208 | — | 149 |
| **Total** | **$ 15,641** | **$ 23,442** | **$ (16,563)** | **$ 22,520** |

The primary drivers of net unrealized appreciation of investments of $6.9 million for the year ended March 31, 2017 were the reversal of previously recorded unrealized depreciation related to our investment in Danco upon its restructure, an increase in the fair value of our investment in Mitchell based on its sale in April 2017, and increased performance and comparable multiples used to estimate the fair value of certain of our investments, which was partially offset by unrealized depreciation resulting from the reversal of previously recorded unrealized appreciation related to the exit of our investments in Acme and Behrens and a decrease in performance of certain of our portfolio companies.

Across our entire investment portfolio, we recorded $13.9 million of net unrealized depreciation on our debt positions and $51.8 million of net unrealized appreciation on our equity holdings for the year ended March 31, 2018. As of March 31, 2018, the fair value of our investment portfolio was greater than our cost basis by $14.3 million, as compared to March 31, 2017, when the fair value of our investment portfolio was less than our cost basis by $23.6 million, representing net unrealized appreciation of $37.9 million for the year ended March 31, 2018. Our entire portfolio was fair valued at 102.4% of cost as of March 31, 2018.

*Net Unrealized Appreciation on Other*

During the year ended March 31, 2018, we recorded net unrealized appreciation of other of $0.5 million related to changes in the fair value of the Credit Facility. During the year ended March 31, 2017, we recorded net unrealized appreciation on other of $0.1 million due to the reversal of previously recorded depreciation upon the expiration of our interest rate cap agreement in April 2016.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Cash inflows from operating activities are primarily generated from cash collections of interest and other income from our portfolio companies, as well as from cash proceeds received from repayments of debt investments and from sales of equity investments. These cash collections are principally used to fund new investments, pay distributions to our common stockholders, make interest payments on the Credit Facility, make dividend payments on our mandatorily redeemable preferred stock, pay management and incentive fees to the Adviser, and for other operating expenses. We may also use cash inflows from operating activities to repay outstanding borrowings under the Credit Facility.

Net cash provided by operating activities for the year ended March 31, 2019 was $93.6 million, as compared to net cash used in operating activities of $29.7 million for the year ended March 31, 2018. This change was primarily due to higher net proceeds from the sale of investments, higher principal repayments of investments, and lower purchases of investments period over period. Purchases of investments totaled $91.9 million during the year ended March 31, 2019, compared to $98.5 million during the year ended March 31, 2018. Repayments and net proceeds from the sale of investments totaled $154.7 million during the year ended March 31, 2019, compared to $39.9 million during the year ended March 31, 2018.

Net cash used in operating activities for the year ended March 31, 2018 was $29.7 million, as compared to net cash provided by operating activities of $32.6 million for the year ended March 31, 2017. This change was primarily due to an increase in purchases of investments and lower repayments and net proceeds from the sale of investments. Purchases of investments totaled $98.5 million during the year ended March 31, 2018, compared to $62.4 million during the year ended March 31, 2017. Repayments and net proceeds from the sale of investments totaled $39.9 million during the year ended March 31, 2018, compared to $68.8 million during the year ended March 31, 2017.

As of March 31, 2019, we had equity investments in, or loans to, 30 companies with an aggregate cost basis of $589.7 million. As of March 31, 2018, we had equity investments in, or loans to, 33 companies with an aggregate cost basis of $584.8 million. The following table summarizes our total portfolio investment activity for the years ended March 31, 2019 and 2018:

| | Years Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Beginning investment portfolio, at fair value | **$ 599,147** | $501,579 |
| New investments | **57,761** | 59,424 |
| Disbursements to existing portfolio companies | **34,175** | 39,115 |
| Unscheduled principal repayments | **(45,214)** | (32,208) |
| Net proceeds from sales of investments | **(109,113)** | (7,651) |
| Net realized gain on investments | **67,218** | 982 |
| Net unrealized appreciation of investments | **71,405** | 35,563 |
| Reversal of net unrealized (appreciation) depreciation of investments | **(51,225)** | 2,328 |
| Amortization of premiums, discounts, and acquisition costs, net | **18** | 15 |
| **Ending investment portfolio, at fair value** | **$ 624,172** | $599,147 |

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of March 31, 2019:

| | | Amount |
|---|---|---|
| For the fiscal years ending March 31: | 2020 | $ 98,394 |
| | 2021 | 69,061 |
| | 2022 | 55,621 |
| | 2023 | 97,489 |
| | 2024 | 110,618 |
| | Thereafter | 11,700 |
| | **Total contractual repayments** | **$442,883** |
| | Adjustments to cost basis of debt investments | (67) |
| | Investments in equity securities | 146,873 |
| | **Total cost basis of investments held as of March 31, 2019:** | **$589,689** |

**Financing Activities**

Net cash used in financing activities for the year ended March 31, 2019 was $94.0 million, which was primarily a result of the redemption of our Series B Term Preferred Stock and Series C Term Preferred Stock of $81.7 million, $54.0 million of net repayments on the Credit Facility, and $30.5 million in distributions to common stockholders, partially offset by $72.1 million of net proceeds from the issuance of our Series E Term Preferred Stock and $1.8 million of net proceeds from the issuance of common stock under the at-the-market program.

Net cash provided by financing activities for the year ended March 31, 2018 was $29.6 million, which consisted primarily of $37.3 million of net proceeds from the Credit Facility, $21.4 million of net proceeds from the issuance of common stock in May 2017, including the partial exercise of the underwriters' over-allotment option in June 2017, and net proceeds from the issuance of common stock under the ATM program in March 2018, partially offset by $28.9 million in distributions paid to common stockholders.

Net cash used in financing activities for the year ended March 31, 2017 was $34.1 million, which consisted primarily of $25.3 million of net repayments on the Credit Facility, $22.7 million in distributions paid to common stockholders, and the redemption of our Series A Term Preferred Stock in September 2016 of $40.0 million, partially offset by net proceeds from the issuance of our Series D Term Preferred Stock of $55.4 million in September 2016.

**Distributions and Dividends to Stockholders**

***Common Stock Distributions***

To qualify to be taxed as a RIC and thus avoid corporate level federal income tax on the income we distribute to our stockholders, we are required, among other requirements, to distribute to our stockholders on an annual basis at least 90% of our Investment Company Taxable Income, determined without regard to the dividends paid deduction. Additionally, the Credit Facility generally restricts the amount of distributions to stockholders that we can pay out to be no greater than the sum of certain amounts, including our net investment income, plus net capital gains, plus amounts elected by the Company to be considered as having been paid during the prior fiscal year in accordance with Section 855(a) of the Code. In accordance with these requirements, our Board of Directors declared, and we paid, monthly cash distributions of $0.067 per common share for each of the six months from April through September 2018, $0.068 per common share for each of the six months from October 2018 through March 2019, and supplemental distributions of $0.06 per common share for each of June 2018 and December 2018. In addition, in April 2019, our Board of Directors declared a deemed distribution of $1.52 per common share to stockholders of record as of March 29, 2019, a monthly distribution of $0.068 per common share for each of April, May, and June 2019, and a supplemental distribution of $0.09 per common share for June 2019. Our Board of Directors declared these distributions based on estimates of Investment Company Taxable Income and net long-term capital gains for the fiscal year ending March 31, 2020.

For each of the fiscal years ended March 31, 2019 and 2018, Investment Company Taxable Income exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $16.0 million and $8.4 million, respectively, of the first distributions paid to common stockholders in the respective subsequent fiscal year as having been paid in the respective prior year. In addition, for each of the fiscal years ended March 31, 2019 and 2018, net capital gains exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $13.2 million and $2.1 million, respectively, of the first distributions paid to common stockholders in the respective subsequent fiscal year as having been paid in the respective prior year. For the year ended March 31, 2019, we recorded a $16.1 million adjustment for estimated book-tax differences, which decreased Capital in excess of par value and increased Accumulated net realized gain in excess of distributions and (Overdistributed) underdistributed net investment income. For the year ended March 31, 2018, we recorded a $1.6 million adjustment for estimated book-tax differences, which decreased Capital in excess of par value and Accumulated net realized gain in excess of distributions and increased (Overdistributed) underdistributed net investment income.

***Preferred Stock Dividends***

Our Board of Directors declared and we paid monthly cash dividends of (i) $0.140625 per share to holders of our Series B Term Preferred Stock for each of the five months from April through August 2018 (prior to redemption); (ii) $0.135417 per share to holders of our Series C Term Preferred Stock for each of the five months from April through August 2018 (prior to redemption); and (iii) $0.13020833 per share to holders of our Series D Term Preferred Stock for each month during the year ended March 31, 2019. Our Board of Directors also declared and we paid a combined dividend for the pro-rated period from and including the issuance date, August 22, 2018, to and including August 31, 2018 and the full month of September 2018, which totaled $0.17265625 per share, to the holders of our Series E Term Preferred Stock. In addition, we paid $0.1328125 per share to holders of our Series E Term Preferred Stock for each of the six months from October 2018 through March 2019. In accordance with GAAP, we treat these monthly dividends as an operating expense.

***Dividend Reinvestment Plan***

Our common stockholders who hold their shares through our transfer agent, Computershare, Inc. ("Computershare"), have the option to participate in a dividend reinvestment plan offered by Computershare, as the plan agent. This is an "opt in" dividend reinvestment plan, meaning that common stockholders may elect to have their cash distributions automatically reinvested in additional shares of our common stock. Common stockholders who do not make such election will receive their distributions in cash. Any distributions reinvested under the plan will be taxable to a common stockholder to the same extent, and with the same character, as if the common stockholder had received the distribution in cash. The common stockholder generally will have an adjusted basis in the additional common shares purchased through the plan equal to the dollar amount that would have been received if the U.S. stockholder had received the dividend or distribution in cash. The additional common shares will have a new holding period commencing on the day following the date on which the shares are credited to the common stockholder's account. Computershare purchases shares in the open market in connection with the obligations under the plan. The Computershare dividend reinvestment plan is not open to holders of our preferred stock.

**Equity**

***Registration Statement***

On June 5, 2018, we filed a registration statement on FormN-2 (File No. 333-225447), which the SEC declared effective on July 13, 2018. The registration statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities, and warrants to purchase common stock, preferred stock, or debt securities, including through concurrent, separate offerings of such securities. As of March 31, 2019, we had the ability to issue up to an additional $225.3 million in securities under the registration statement.

***Common Stock***

In February 2018, we entered into equity distribution agreements with Cantor Fitzgerald & Co. ("Cantor"), Ladenburg Thalmann & Co., Inc., and Wedbush Securities, Inc. (each a "Sales Agent"), under which we have the ability to issue and sell shares of our common stock, from time to time, through the Sales Agents, up to an aggregate offering price of $35.0 million in what is commonly referred to as an "at-the-market" ("ATM") program. As of March 31, 2019, we had remaining capacity to sell up to an additional $31.8 million of common stock under the ATM program.

During the three months ended June 30, 2018, we sold 168,824 shares of our common stock under the ATM program with Cantor at a weighted-average gross price of $11.09 per share and raised approximately $1.9 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was $10.87 and resulted in total net proceeds of approximately $1.8 million. Certain of these sales were below our then-current estimated NAV per share during the sales period, with a discount of $0.002 per share, when comparing the sales price per share, after deducting commissions, to the then-current estimated NAV per share; however, the net dilutive effect (after commissions and offering costs borne by us) of these sales was $0.00 per common share as a result of the small number of shares sold at a slight discount to NAV per share and resulting rounding. In aggregate, the sales during the three months ended June 30, 2018 were above our then-current estimated NAV per share.

In March 2018, we sold 127,412 shares of our common stock under the ATM program with Cantor at a weighted-average gross price of $10.45 per share and raised approximately $1.3 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was $10.24 and resulted in total net proceeds of approximately $1.3 million. These sales were below our then-current estimated NAV per share during the sales period, with such discounts ranging from $0.01 per share to $0.07 per share, when comparing the sales price per share, after deducting commissions, to the then-current estimated NAV per share; however, the net dilutive effect (after commissions and offering costs borne by us) of these sales was $0.00 per common share as a result of the small number of shares sold at a slight discount to NAV per share and resulting rounding.

In May 2017, we completed a public offering of 2.1 million shares of our common stock at a public offering price of $9.38 per share, which was below our then current NAV of $9.95 per share. Gross proceeds totaled $19.7 million and net proceeds, after deducting underwriting discounts and commissions and estimated offering costs borne by us, were $18.7 million, which were used to repay borrowings under the Credit Facility and for other general corporate purposes. In June 2017, the underwriters partially exercised their over-allotment option and purchased an additional 155,265 shares at the public offering price of $9.38 per share and on the same terms and conditions solely to cover over-allotments, which resulted in gross proceeds of $1.5 million and net proceeds, after deducting underwriting discounts and commissions and offering costs borne by us, of $1.4 million.

We anticipate issuing equity securities to obtain additional capital in the future. However, we cannot determine the timing or terms of any future equity issuances or whether we will be able to issue equity on terms favorable to us, or at all. When our common stock is trading at a price below NAV per share, the 1940 Act places regulatory constraints on our ability to obtain additional capital by issuing common stock. Generally, the 1940 Act provides that we may not issue and sell our common stock at a price below our NAV per common share, other than to our then existing common stockholders pursuant to a rights offering, without first obtaining approval from our stockholders and our independent directors and meeting other stated requirements. On March 29, 2019, the closing market price of our common stock was $11.60 per share, representing a 6.5% discount to our NAV per share of $12.40 as of March 31, 2019.

At our 2018 Annual Meeting of Stockholders held on August 9, 2018, our stockholders approved a proposal authorizing us to issue and sell shares of our common stock at a price below our then current NAV per common share for a period of one year from the date of such approval, provided that our Board of Directors makes certain determinations prior to any such sale. At our 2019 Annual Meeting of Stockholders, scheduled to take place in August 2019, we intend to ask our stockholders to vote in favor of a similar proposal so that it may be in effect for another year.

***Term Preferred Stock***

In August 2018, we completed a public offering of 2,990,000 shares of our Series E Term Preferred Stock at a public offering price of $25.00 per share. Gross proceeds totaled $74.8 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were $72.1 million. Total underwriting discounts and offering costs related to this offering were $2.7 million, which have been recorded as discounts to the liquidation value on our *Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending August 31, 2025, the mandatory redemption date.

Our Series E Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.375% per year, payable monthly (which equates to $4.8 million per year). We are required to redeem all shares of our outstanding Series E Term Preferred Stock on August 31, 2025, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, two other potential mandatory redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series E Term Preferred Stock, and (2) if we fail to maintain asset coverage as required by Sections 18 and 61 of the 1940 Act (which is currently 150%) and are unable to correct such failure within a specific amount of time, we are required to redeem a portion of our outstanding Series E Term Preferred Stock or otherwise cure the asset coverage redemption trigger (we may also redeem additional securities to cause asset coverage to be up to 200%). We may also voluntarily redeem all or a portion of our Series E Term Preferred Stock at our sole option at the redemption price at any time on or after August 31, 2020.

In August 2018, we used the proceeds from the issuance of our Series E Term Preferred Stock, along with borrowings under the Credit Facility, to voluntarily redeem all outstanding shares of our Series B Term Preferred Stock and Series C Term Preferred Stock, each of which had a liquidation preference of $25.00 per share. In connection with the voluntary redemption of our Series B Term Preferred Stock and Series C Term Preferred Stock, we incurred a loss on extinguishment of debt of $1.7 million, which was recorded in Realized loss on other in our *Consolidated Statements of Operations* and which was primarily comprised of unamortized deferred issuance costs at the time of redemption.

Prior to its redemption in August 2018, our Series B Term Preferred Stock provided for a fixed dividend equal to 6.75% per year, payable monthly (which equated to $2.8 million per year). We were required to redeem all shares of our outstanding Series B Term Preferred Stock on December 31, 2021, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. Our Series B Term Preferred Stock was not convertible into our common stock or any other security.

Prior to its redemption in August 2018, our Series C Term Preferred Stock provided for a fixed dividend equal to 6.50% per year, payable monthly (which equated to $2.6 million per year). We were required to redeem all shares of our outstanding Series C Term Preferred Stock on May 31, 2022, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. Our Series C Term Preferred Stock was not convertible into our common stock or any other security.

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

Our Series D Term Preferred Stock is not convertible into our common stock or any other security. Our Series D Term Preferred Stock provides for a fixed dividend equal to 6.25% per year, payable monthly (which equates to $3.6 million per year). We are required to redeem all shares of our outstanding Series D Term Preferred Stock on September 30, 2023, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, two other potential mandatory redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series D Term Preferred Stock, and (2) if we fail to maintain asset coverage of at least 200% and are unable to correct such failure within a specific amount of time, we are required to redeem a portion of our outstanding Series D Term Preferred Stock or otherwise cure the asset coverage redemption trigger (and we may also redeem additional securities to cause the asset coverage to be 240%). We may also voluntarily redeem all or a portion of our Series D Term Preferred Stock at our sole option at the redemption price at any time on or after September 30, 2018.

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

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

Each series of our mandatorily redeemable preferred stock has a preference over our common stock with respect to dividends, whereby no distributions are payable on our common stock unless the stated dividends, including any accrued and unpaid dividends, on the mandatorily redeemable preferred stock have been paid in full. The Series D Term Preferred Stock and Series E Term Preferred Stock are considered liabilities in accordance with GAAP and, as such, affect our asset coverage, exposing us to additional leverage risks. The asset coverage on our senior securities that are stock (our Series D Term Preferred Stock and Series E Term Preferred Stock) as of March 31, 2019 was 309.1%, calculated pursuant to Sections 18 and 61 of the 1940 Act.

**Revolving Line of Credit**

On August 22, 2018, we, through our wholly-owned subsidiary, Business Investment, entered into Amendment No. 4 to the Fifth Amended and Restated Credit Agreement, originally entered into on April 30, 2013, with KeyBank National Association ("KeyBank") as administrative agent, lead arranger, managing agent and lender, the Adviser, as servicer, and certain other lenders party thereto. The revolving period was extended to August 22, 2021, and if not renewed or extended by such date, all principal and interest will be due and payable on August 22, 2023 (two years after the revolving period end date). As of March 31, 2019, the Credit Facility provided two one-year extension options that may be exercised on or before the first and second anniversary of the August 22, 2018 amendment date, subject to approval by all lenders. Additionally, the Credit Facility commitment amount was increased from $165.0 million to $200.0 million and, subject to certain terms and conditions, can be expanded to a total facility amount of $300.0 million through additional commitments from existing or new lenders.

Advances under the Credit Facility generally bear interest at30-day LIBOR plus 2.85% per annum until August 21, 2021, with the margin then increasing to 3.10% for the period from August 22, 2021 to August 21, 2022, and increasing further to 3.35% thereafter. The Credit Facility has an unused commitment fee on the daily unused commitment amount of 0.50% per annum if the average unused commitment amount for the period is less than or equal to 50% of the total commitment amount, 0.75% per annum if the average unused commitment amount for the period is greater than 50% but less than or equal to 65% of the total commitment amount, and 1.00% per annum if the average unused commitment amount for the period is greater than 65% of the total commitment amount. We incurred fees of approximately $1.6 million in connection with this amendment.

Interest is payable monthly during the term of the Credit Facility. Available borrowings are subject to various constraints and applicable advance rates, which are generally based on the size, characteristics, and quality of the collateral pledged by Business Investment. The Credit Facility also requires that any interest and principal payments on pledged loans be remitted directly by the borrower into a lockbox account with KeyBank. KeyBank is also the trustee of the account and generally remits the collected funds to us once a month.

Among other things, the Credit Facility contains covenants that require Business Investment to maintain its status as a separate legal entity, prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions) and restrict certain material changes to our credit and collection policies without the lenders' consent. The Credit Facility also generally seeks to restrict distributions to stockholders to the sum of (i) our net investment income, (ii) net capital gains, and (iii) amounts deemed by the Company to be considered as having been paid during the prior fiscal year in accordance with Section 855(a) of the Code. Loans eligible to be pledged as collateral are subject to certain limitations, including, among other things, restrictions on geographic concentrations, industry concentrations, loan size, payment frequency and status, average life, portfolio company leverage, and lien property.

The Credit Facility also requires Business Investment to comply with other financial and operational covenants, which obligate Business Investment to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum number of obligors required in the borrowing base. Additionally, the Credit Facility contains a performance guaranty that requires the Company to maintain (i) a minimum net worth (defined in the Credit Facility to include our mandatory redeemable term preferred stock) of the greater of $210.0 million or $210.0 million plus 50% of all equity and subordinated debt raised minus 50% of any equity or subordinated debt redeemed or retired after November 16, 2016, which equated to $218.7 million as of March 31, 2019, (ii) asset coverage with respect to senior securities representing indebtedness of at least 150% (or such percentage as may be set forth in Section 18 of the 1940 Act, as modified by Section 61 of the 1940 Act), and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of March 31, 2019, and as defined in the performance guaranty of the Credit Facility, we had a net worth of $533.9 million, asset coverage on our senior securities representing indebtedness of 997.6%, calculated in accordance with the requirements of Sections 18 and 61 of the 1940 Act, and an active status as a BDC and RIC. As of March 31, 2019, we had availability, after adjustments for various constraints based on collateral quality, of $137.5 million under the Credit Facility and were in compliance with all covenants under the Credit Facility.

In July 2013, pursuant to the terms of the then effective revolving line of credit, we entered into an interest rate cap agreement with KeyBank effective October 2013 for a notional amount of $45.0 million. The interest rate cap agreement expired in April 2016. Prior to its expiration in April 2016, the agreement effectively limited the interest rate on a portion of our borrowings under the then effective revolving line of credit. We incurred a premium fee of $75 in conjunction with this agreement, which was recorded in Net realized loss on other on our accompanying *Consolidated Statements of Operations* during the year ended March 31, 2017.

### OFF-BALANCE SHEET ARRANGEMENTS

Unlike PIK income, we generally do not recognize success fees as income until payment has been received. Due to the contingent nature of success fees, there are no guarantees that we will be able to collect any or all of these success fees or know the timing of any such collections. As a result, as of March 31, 2019 and 2018, we had unrecognized, contractual off-balance sheet success fee receivables of $30.1 million and $28.3 million (or approximately $0.92 and $0.87 per common share), respectively, on our debt investments. Consistent with GAAP, we have not recognized success fee receivables and related income in our *Consolidated Financial Statements* until earned.

### CONTRACTUAL OBLIGATIONS

We have line of credit commitments to certain of our portfolio companies that have not been fully drawn. Since these line of credit commitments have expiration dates and we expect many will never be fully drawn, the total line of credit commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused line of credit commitments as of March 31, 2019 to be immaterial.

As of March 31, 2019, we have also extended a guaranty on behalf of one of our portfolio companies, CCE, whereby we have guaranteed $1.0 million of obligations of CCE. As of March 31, 2019, we have not been required to make payments on this or any previous guaranties, and we consider the credit risks to be remote and the fair value of this guaranty to be immaterial.

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The following table shows our contractual obligations as of March 31, 2019, at cost:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations(A) | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Credit Facility(B) | $ 53,000 | $ — | $ — | $ 53,000 | $ — |
| Mandatorily redeemable preferred stock | 132,250 | — | — | 57,500 | 74,750 |
| Secured borrowing | 5,096 | — | 5,096 | — | — |
| Interest payments on obligations(C) | 66,570 | 13,096 | 25,718 | 21,005 | 6,751 |
| **Total** | **$256,916** | **$13,096** | **$30,814** | **$131,505** | **$81,501** |

(A) Excludes unused line of credit commitments and guaranties to our portfolio companies in the aggregate principal amount of $2.3 million.

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

(C) Includes interest payments due on the Credit Facility and secured borrowing and dividend obligations on each series of our mandatorily redeemable preferred stock. The amount of interest payments calculated for purposes of this table was based upon rates and outstanding balances as of March 31, 2019. Dividend obligations on our mandatorily redeemable preferred stock assume quarterly declarations and monthly dividend payments through the date of mandatory redemption of each series.

## Critical Accounting Policies

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

### *Investment Valuation*

Credit Monitoring and Risk Rating

The Adviser monitors a wide variety of key credit statistics that provide information regarding our portfolio companies to help us assess credit quality and portfolio performance and, in some instances, are used as inputs in our valuation techniques. Generally, we, through the Adviser, participate in periodic board meetings of our portfolio companies in which we hold board seats and also require them to provide annual audited and monthly unaudited financial statements. Using these statements or comparable information and board discussions, the Adviser calculates and evaluates certain credit statistics.

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

The following table reflects risk ratings for all loans in our portfolio as of March 31, 2019 and 2018:

| Rating | As of March 31, 2019 | As of March 31, 2018 |
|---|---|---|
| Highest | **9.0** | 10.0 |
| Average | **6.7** | 6.4 |
| Weighted-average | **7.2** | 6.5 |
| Lowest | **1.0** | 4.0 |

***Tax Status***

We intend to continue to maintain our qualification as a RIC under Subchapter M of the Code for U.S. federal income tax purposes. As a RIC, we generally are not subject to U.S. federal income tax on the portion of our taxable income and gains distributed to our stockholders. To maintain our qualification as a RIC, we must maintain our status as a BDC and meet certain source-of-income and asset diversification requirements. In addition, in order to qualify to be taxed as a RIC, we must distribute to stockholders at least 90% of our Investment Company Taxable Income, determined without regard to the dividends paid deduction. Our policy generally is to make distributions to our stockholders in an amount up to 100% of Investment Company Taxable Income. We may retain some or all of our net long-term capital gains, if any, and designate them as deemed distributions, or distribute such gains to stockholders in cash. See *"Business — Material U.S. Federal Income Tax Considerations"* and *" — Liquidity and Capital Resources — Distributions and Dividends to Stockholders."*

In an effort to limit federal excise taxes, we have to distribute to stockholders, during each calendar year, an amount close to the sum of: (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our net capital gains (both long-term and short-term), if any, for the one-year period ending on October 31 of the calendar year, and (3) any income realized, but not distributed, in the preceding period (to the extent that income tax was not imposed on such amounts), less certain reductions, as applicable. Under the RIC Modernization Act, we are permitted to carryforward any capital losses that we may incur for an unlimited period, and such capital loss carryforwards will retain their character as either short-term or long-term capital losses. Our capital loss carryforward balance was $0 as of both March 31, 2019 and March 31, 2018.

***Recent Accounting Pronouncements***

Refer to Note 2 — *Summary of Significant Accounting Policies* in the *Notes to Consolidated Financial Statements* included elsewhere in this Annual Report for a description of recent accounting pronouncements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

We target to have approximately 10% of the loans in our portfolio at fixed rates, with approximately 90% at variable rates or variable rates with a floor mechanism. As of March 31, 2019 and 2018, all of our variable-rate loans have rates associated with the current 30-day LIBOR rate and our total debt investment portfolio consisted of the following breakdown based on the principal balance:

| Rates: | 2019 | 2018 |
|---|---|---|
| Variable rates with a floor | 97.4% | 97.0% |
| Fixed rates | 2.6 | 3.0 |
| **Total** | **100.0%** | **100.0%** |

Our mandatorily redeemable preferred stock had an outstanding aggregate liquidation preference of $132.3 million and $139.2 million as of March 31, 2019 and March 31, 2018, respectively, and we had outstanding borrowings under the Credit Facility of $53.0 million and $107.0 million as of March 31, 2019 and March 31, 2018, respectively.

Advances under the Credit Facility generally bear interest at30-day LIBOR plus 2.85% per annum until August 21, 2021, with the margin then increasing to 3.10% for the period from August 22, 2021 to August 21, 2022, and increasing further to 3.35% thereafter. The Credit Facility has an unused commitment fee on the daily unused commitment amount of 0.50% per annum if the average unused commitment amount for the period is less than or equal to 50% of the total commitment amount, 0.75% per annum if the average unused commitment amount for the period is greater than 50% but less than or equal to 65% of the total commitment amount, and 1.00% per annum if the average unused commitment amount for the period is greater than 65% of the total commitment amount.

To illustrate the potential impact of changes in interest rates, we have performed the following hypothetical analysis, which assumes that our balance sheet and interest rates remain constant as of March 31, 2019 and no further actions are taken to alter our existing interest rate sensitivity.

| Basis Point Change(A) | Increase (Decrease) in Interest Income | Increase (Decrease) in Interest Expense | Net Increase (Decrease) in Net Assets Resulting from Operations |
|---|---|---|---|
| Up 300 basis points | $ 10,694 | $ 1,613 | $ 9,081 |
| Up 200 basis points | 7,008 | 1,075 | 5,993 |
| Up 100 basis points | 3,362 | 538 | 2,824 |
| Down 100 basis points | (2,036) | (538) | (1,498) |
| Down 200 basis points | (2,337) | (1,075) | (1,262) |
| Down 249 basis points | (2,337) | (1,341) | (996) |

(A) As of March 31, 2019, our effective average LIBOR was 2.49%, therefore the largest decrease in basis points that could occur was 249 basis points.

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

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

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Index to Consolidated Financial Statements

**Management's Annual Report on Internal Control over Financial Reporting**

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

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

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

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we assessed the effectiveness of our internal control over financial reporting as of March 31, 2019, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013)*. Based on its assessment, management has concluded that our internal control over financial reporting was effective as of March 31, 2019.

The effectiveness of our internal control over financial reporting as of March 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

May 13, 2019

**Report of Independent Registered Public Accounting Firm**

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

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Gladstone Investment Corporation and its subsidiaries (the "Company") as of March 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2019, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2019 and 2018, and the results of its operations, changes in its net assets and its cash flows for each of the three years in the period ended March 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our procedures included confirmation of securities owned as of March 31, 2019 and 2018 by correspondence with the custodian and portfolio company investees. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

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

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

/s/ PricewaterhouseCoopers LLP

McLean, VA
May 13, 2019

We have served as the Company's auditor since 2005.

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

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Investments at fair value | | |
| Non-Control/Non-Affiliate investments (Cost of **$254,002** and $220,087, respectively) | **$313,750** | $247,297 |
| Affiliate investments (Cost of **$314,175** and $343,247, respectively) | **297,113** | 339,393 |
| Control investments (Cost of **$21,512** and $21,512, respectively) | **13,309** | 12,457 |
| Cash and cash equivalents | **1,702** | 3,639 |
| Restricted cash and cash equivalents | **1,903** | 328 |
| Interest receivable | **2,808** | 3,532 |
| Due from administrative agent | **1,285** | 2,324 |
| Deferred financing costs, net | **1,730** | 976 |
| Other assets, net | **1,500** | 953 |
| **TOTAL ASSETS** | **$635,100** | $610,899 |
| **LIABILITIES** | | |
| Borrowings: | | |
| Line of credit at fair value (Cost of **$53,000** and $107,000, respectively) | **$ 53,000** | $107,500 |
| Secured borrowing | **5,096** | 5,096 |
| Total borrowings | **58,096** | 112,596 |
| Mandatorily redeemable preferred stock, $0.001 par value per share, $25 liquidation preference per share; **6,500,000** and 6,356,000 shares authorized, respectively; **5,290,000** and 5,566,000 shares issued and outstanding, respectively, net | **128,482** | 135,615 |
| Accounts payable and accrued expenses | **892** | 916 |
| Fees due to Adviser(A) | **24,724** | 6,671 |
| Fee due to Administrator(A) | **344** | 317 |
| Other liabilities | **15,452** | 584 |
| **TOTAL LIABILITIES** | **227,990** | 256,699 |
| Commitments and contingencies(B) | | |
| **NET ASSETS** | **$407,110** | $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 | **366,422** | 330,661 |
| Cumulative net unrealized appreciation of investments | **34,483** | 14,301 |
| Cumulative net unrealized appreciation of other | **—** | (500) |
| (Overdistributed) underdistributed net investment income | **(7,343)** | 3,660 |
| Accumulated net realized gain in excess of distributions | **13,515** | 6,045 |
| Total distributable earnings | **40,655** | 23,506 |
| **TOTAL NET ASSETS** | **$407,110** | $354,200 |
| **NET ASSET VALUE PER SHARE** | **$ 12.40** | $ 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 11 — *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)**

| | Year Ended March 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| **INVESTMENT INCOME** | | | |
| Interest income: | | | |
| Non-Control/Non-Affiliate investments | **$ 23,977** | $ 19,266 | $ 17,385 |
| Affiliate investments | **24,767** | 28,679 | 27,941 |
| Control investments | **848** | 833 | 818 |
| Cash and cash equivalents | **40** | 21 | 3 |
| Total interest income | **49,632** | 48,799 | 46,147 |
| Dividend income: | | | |
| Non-Control/Non-Affiliate investments | **4,337** | 2,931 | 152 |
| Affiliate investments | **(401)** | 1,297 | 3,190 |
| Total dividend income | **3,936** | 4,228 | 3,342 |
| Success fee income: | | | |
| Non-Control/Non-Affiliate investments | **2,099** | 3,104 | 996 |
| Affiliate investments | **1,996** | 2,224 | 1,377 |
| Control investments | **2,000** | — | — |
| Total success fee income | **6,095** | 5,328 | 2,373 |
| Other income | **—** | — | 13 |
| Total investment income | **59,663** | 58,355 | 51,875 |
| **EXPENSES** | | | |
| Base management fee(A) | **12,752** | 10,796 | 9,925 |
| Loan servicing fee(A) | **6,827** | 6,277 | 6,606 |
| Incentive fee(A) | **22,254** | 10,648 | 4,750 |
| Administration fee(A) | **1,312** | 1,087 | 1,120 |
| Interest expense on borrowings | **6,147** | 4,034 | 3,540 |
| Dividends on mandatorily redeemable preferred stock | **8,747** | 9,005 | 8,683 |
| Amortization of deferred financing costs and discounts | **1,610** | 1,468 | 1,875 |
| Professional fees | **1,272** | 1,077 | 698 |
| Other general and administrative expenses | **3,537** | 1,954 | 2,368 |
| Expenses before credits from Adviser | **64,458** | 46,346 | 39,565 |
| Credits to base management fee – loan servicing fee(A) | **(6,827)** | (6,277) | (6,606) |
| Credits to fees from Adviser — other(A) | **(5,509)** | (3,674) | (3,506) |
| Total expenses, net of credits to fees | **52,122** | 36,395 | 29,453 |
| **NET INVESTMENT INCOME** | **$ 7,541** | $ 21,960 | $ 22,422 |
| **REALIZED AND UNREALIZED GAIN (LOSS)** | | | |
| Net realized gain (loss): | | | |
| Non-Control/Non-Affiliate investments | **$ 12,815** | $ 1,189 | $ 1,086 |
| Affiliate investments | **55,741** | 143 | 14,558 |
| Control investments | **—** | 4 | (3) |
| Other | **(1,687)** | — | (254) |
| Total net realized gain | **66,869** | 1,336 | 15,387 |
| Taxes on deemed distribution of long-term capital gains | **(13,500)** | — | — |
| Net unrealized appreciation (depreciation): | | | |
| Non-Control/Non-Affiliate investments | **32,537** | 28,805 | 9,230 |
| Affiliate investments | **(13,209)** | 12,871 | (8,593) |
| Control investments | **852** | (3,785) | 6,242 |
| Other | **500** | (500) | 75 |
| Total net unrealized appreciation | **20,680** | 37,391 | 6,954 |
| Net realized and unrealized gain, net of taxes on deemed distribution of long-term capital gains | **74,049** | 38,727 | 22,341 |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | **$ 81,590** | $ 60,687 | $ 44,763 |
| **BASIC AND DILUTED PER COMMON SHARE:** | | | |
| Net investment income | **$ 0.23** | $ 0.68 | $ 0.74 |
| Net increase in net assets resulting from operations | **$ 2.49** | $ 1.88 | $ 1.48 |
| **WEIGHTED-AVERAGE SHARES OF COMMON STOCK OUTSTANDING:** | | | |
| Basic and diluted | **32,807,597** | 32,268,776 | 30,270,958 |

(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 CHANGES IN NET ASSETS**
**(IN THOUSANDS)**

| | Year Ended March 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| **OPERATIONS** | | | |
| Net investment income | **$ 7,541** | $ 21,960 | $ 22,422 |
| Net realized gain on investments | **68,556** | 1,336 | 15,641 |
| Taxes on deemed distributions of long-term capital gains | **(13,500)** | — | — |
| Net realized loss on other | **(1,687)** | — | (254) |
| Net unrealized appreciation of investments | **20,180** | 37,891 | 6,879 |
| Net unrealized depreciation (appreciation) of other | **500** | (500) | 75 |
| Net increase in net assets from operations | **81,590** | 60,687 | 44,763 |
| **DISTRIBUTIONS(A)** | | | |
| Distributions to common stockholders from net investment income | **(22,670)** | (27,174) | (22,703) |
| Distributions to common stockholders from realized gains | **(7,846)** | (1,756) | — |
| Net decrease in net assets from distributions | **(30,516)** | (28,930) | (22,703) |
| **CAPITAL ACTIVITY** | | | |
| Issuance of common stock | **1,873** | 22,485 | — |
| Discounts, commissions, and offering costs for issuance of common stock | **(37)** | (1,124) | — |
| Net increase in net assets from capital activity | **1,836** | 21,361 | — |
| **TOTAL INCREASE IN NET ASSETS** | **52,910** | 53,118 | 22,060 |
| **NET ASSETS, BEGINNING OF YEAR(A)** | **354,200** | 301,082 | 279,022 |
| **NET ASSETS, END OF YEAR(A)** | **$407,110** | $354,200 | $301,082 |
| **DISTRIBUTIONS PER SHARE OF COMMON STOCK(A)** | **$ 0.93** | $ 0.89 | $ 0.75 |

(A) Refer to Note 9 — *Distributions to Common Stockholders* 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 CASH FLOWS**
**(IN THOUSANDS)**

| | Year Ended March 31, 2019 | 2018 | 2017 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net increase in net assets resulting from operations | **$ 81,590** | $ 60,687 | $ 44,763 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities: | | | |
| Purchase of investments | **(91,936)** | (98,539) | (62,446) |
| Principal repayments of investments | **45,214** | 32,208 | 31,886 |
| Net proceeds from the sale of investments | **109,437** | 7,651 | 36,939 |
| Net realized gain on investments | **(68,058)** | (1,425) | (15,196) |
| Net realized loss on other | **1,670** | — | 239 |
| Net unrealized appreciation of investments | **(20,180)** | (37,891) | (6,879) |
| Net unrealized (depreciation) appreciation of other | **(500)** | 500 | (75) |
| Amortization of premiums, discounts, and acquisition costs, net | **(18)** | (15) | — |
| Amortization of deferred financing costs and discounts | **1,610** | 1,468 | 1,875 |
| Bad debt expense, net of recoveries | **1,668** | 308 | 650 |
| Changes in assets and liabilities: | | | |
| Increase in interest receivable | **(287)** | (1,681) | (253) |
| Decrease (increase) in due from administrative agent | **1,039** | (86) | (600) |
| (Increase) decrease in other assets, net | **(558)** | 2,879 | 3,360 |
| (Decrease) increase in accounts payable and accrued expenses | **(24)** | 259 | (476) |
| Increase (decrease) in fees due to Adviser(A) | **18,053** | 5,000 | (241) |
| Increase (decrease) in fee due to Administrator(A) | **27** | 21 | (15) |
| Increase (decrease) in other liabilities | **14,868** | (1,074) | (928) |
| Net cash provided by (used in) by operating activities | **93,615** | (29,730) | 32,603 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of common stock | **1,873** | 22,485 | — |
| Discounts, commissions, and offering costs for issuance of common stock | **(28)** | (1,110) | — |
| Proceeds from line of credit | **205,500** | 132,100 | 83,400 |
| Repayments on line of credit | **(259,500)** | (94,800) | (108,700) |
| Proceeds from issuance of mandatorily redeemable preferred stock | **74,750** | — | 57,500 |
| Redemption of mandatorily redeemable preferred stock | **(81,650)** | — | (40,000) |
| Deferred financing and offering costs | **(4,406)** | (147) | (3,589) |
| Distributions paid to common stockholders | **(30,516)** | (28,930) | (22,703) |
| Net cash (used in) provided by financing activities | **(93,977)** | 29,598 | (34,092) |
| **NET DECREASE IN CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS** | **(362)** | (132) | (1,489) |
| **CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS, BEGINNING OF YEAR** | **3,967** | 4,099 | 5,588 |
| **CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS, END OF YEAR** | **$ 3,605** | $ 3,967 | $ 4,099 |
| **CASH PAID FOR INTEREST** | **$ 5,665** | $ 3,288 | $ 3,018 |
| **NON-CASH ACTIVITIES(B)** | **$ 20,099** | $ 42,977 | $ 8,796 |

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

**(B)** 2019: Significant non-cash operating activities consisted principally of the following transactions:
In January 2019, we restructured two of our first lien term loans to SOG Specialty Knives & Tools, LLC with a total cost basis of $18.4 million into a new $8.4 million first lien term loan, which resulted in a realized loss of $10.0 million.
In March 2019, we restructured our existing second lien term loans and delayed draw term loan to The Mountain Corporation with a total cost basis of $21.7 million into a new $11.7 million second lien term loan, which resulted in a realized loss of $10.0 million.

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2018: Significant non-cash operating activities consisted principally of the following transactions:

In November 2017, one of our portfolio companies, GI Plastek, Inc. (“GI Plastek”) merged with another one of our portfolio companies, Precision Southeast, Inc. (“Precision”), into a new company, PSI Molded Plastics, Inc. (“PSI Molded”). As a result of this transaction, our debt investments in GI Plastek and Precision, which totaled $15.0 million and $9.6 million, respectively, at principal and cost, were assumed by PSI Molded and combined into a new secured second lien term loan totaling $24.6 million. Our preferred equity investment in GI Plastek, with a cost basis of $5.2 million, and our preferred and common equity investments in Precision, with a combined cost basis of $3.8 million, were converted into a preferred equity investment in PSI Molded with the same cost basis.

In June 2017, one of our portfolio companies, Mathey Investments, Inc. (“Mathey”) merged with and into another one of our portfolio companies, SBS Industries, LLC (“SBS”). As a result of this transaction, our debt investments in Mathey, which totaled $8.6 million at principal and cost, were assumed by SBS and combined with our existing debt investment in SBS, which totaled $11.4 million at principal and cost, into a new secured first lien term loan totaling $20.0 million. Our common equity investment in Mathey, with a cost basis of $0.8 million, was converted into a preferred equity investment in SBS with the same cost basis.

2017: Significant non-cash operating activities consisted principally of the following transaction:

In October 2016, we restructured our investment in D.P.M.S., Inc., which resulted in the exchange of our existing debt investments with a total cost basis and fair value of $16.5 million and $6.4 million, respectively, for a new $8.8 million secured first lien term loan. We also relinquished our preferred equity investment and a portion of our common equity investment, which had an aggregate cost basis and fair value of $2.5 million and $0 million, respectively. The transaction resulted in a net realized loss of $10.2 million, which was recorded in our Consolidated Statements of Operations during the year ended March 31, 2017.

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS**
**MARCH 31, 2019**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(N) – 77.2%** | | | |
| **Secured First Lien Debt – 38.4%** | | | |
| **Containers, Packaging, and Glass – 2.3%** | | | |
| Frontier Packaging, Inc. – Term Debt (L+10.0%, 12.5% Cash, Due 3/2021)(L) | $ 9,500 | **$ 9,500** | **$ 9,500** |
| **Diversified/Conglomerate Services – 16.0%** | | | |
| Bassett Creek Restoration, Inc. – Term Debt (L+10.0%, 12.5% Cash, Due 4/2023)(L) | 28,000 | 28,000 | 28,000 |
| Counsel Press, Inc. – Term Debt (L+11.8%, 14.2% Cash, Due 3/2020)(L) | 18,000 | 18,000 | 18,000 |
| Counsel Press, Inc. – Term Debt (L+13.0%, 15.5% Cash, Due 3/2020)(L) | 5,500 | 5,500 | 5,500 |
| Nth Degree, Inc. – Term Debt (L+11.5%, 14.0% Cash, Due 3/2023)(L) | 13,290 | 13,290 | 13,290 |
| | | **64,790** | **64,790** |
| **Farming and Agriculture – 2.7%** | | | |
| Jackrabbit, Inc. – Term Debt (L+10.0%, 13.5% Cash, Due 12/2020)(Q)(T) | 11,000 | **11,000** | **11,000** |
| **Healthcare, Education, and Childcare – 4.9%** | | | |
| Educators Resource, Inc. – Term Debt (L+10.5%, 13.0% Cash, Due 11/2023)(L) | 20,000 | **20,000** | **20,000** |
| **Leisure, Amusement, Motion Pictures, and Entertainment – 6.8%** | | | |
| Schylling, Inc. – Term Debt (L+11.0%, 13.5% Cash, Due 8/2019)(L) | 13,081 | 13,081 | 13,081 |
| Schylling, Inc. – Term Debt (L+11.0%, 13.5% Cash, Due 8/2019)(L) | 8,500 | 8,500 | 8,500 |
| Schylling, Inc. – Term Debt (L+11.0%, 13.5% Cash, Due 8/2019)(L) | 6,000 | 6,000 | 6,000 |
| | | **27,581** | **27,581** |
| **Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 4.9%** | | | |
| SBS Industries, LLC – Term Debt (L+12.0%, 14.5% Cash, Due 6/2020)(L) | 19,957 | **19,957** | **19,957** |
| **Oil and Gas – 0.8%** | | | |
| Tread Corporation – Line of Credit, $634 available (L+10.0%, 12.5% Cash, Due 3/2021)(Q)(T) | 3,216 | **3,216** | **3,216** |
| **Personal, Food, and Miscellaneous Services – 0.0%** | | | |
| B-Dry, LLC – Line of Credit, $50 available (L+0.3%, 2.7% Cash (0.8% Unused Fee), Due 12/2019)(G)(L) | 4,600 | 4,600 | — |
| B-Dry, LLC – Term Debt (L+0.3%, 2.7% Cash, Due 12/2019)(G)(L) | 6,443 | 6,443 | — |
| B-Dry, LLC – Term Debt (L+0.3%, 2.7% Cash, Due 12/2019)(G)(L) | 840 | 840 | — |
| | | **11,883** | **—** |
| **Total Secured First Lien Debt** | | **$167,927** | **$156,044** |
| **Secured Second Lien Debt – 7.5%** | | | |
| **Automobile – 1.0%** | | | |
| Country Club Enterprises, LLC – Term Debt (L+8.0%, 10.5% Cash, Due 2/2022)(K) | $ 4,000 | $ 4,000 | $ 3,920 |
| Country Club Enterprises, LLC – Guaranty ($1,000)(U) | — | — | — |
| | | **4,000** | **3,920** |
| **Cargo Transport – 3.2%** | | | |
| Diligent Delivery Systems – Term Debt (L+9.0%, 11.5% Cash, Due 11/2022)(K) | 13,000 | **12,933** | **13,163** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 3.3%** | | | |
| Ginsey Home Solutions, Inc. – Term Debt (L+10.0%, 13.5% Cash, Due 1/2021)(H)(L) | 13,300 | **13,300** | **13,300** |
| **Total Secured Second Lien Debt** | | **$ 30,233** | **$ 30,383** |

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2019**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **Preferred Equity – 26.2%** | | | |
| **Containers, Packaging, and Glass – 0.4%** | | | |
| Frontier Packaging, Inc. – Preferred Stock(C)(L) | 1,373 | **$ 1,373** | **$ 1,428** |
| **Diversified/Conglomerate Services – 15.6%** | | | |
| Bassett Creek Restoration, Inc. – Preferred Stock(C)(L) | 4,900 | 4,900 | — |
| Counsel Press, Inc. – Preferred Stock(C)(L) | 6,995 | 6,995 | 16,720 |
| Nth Degree, Inc. – Preferred Stock(C)(L) | 5,660 | 5,660 | 46,958 |
| | | **17,555** | **63,678** |
| **Farming and Agriculture – 1.4%** | | | |
| Jackrabbit, Inc. – Preferred Stock(Q)(T) | 3,556 | **3,556** | **5,632** |
| **Healthcare, Education, and Childcare – 2.5%** | | | |
| Educators Resource, Inc. – Preferred Stock(C)(L) | 8,560 | **8,560** | **10,023** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 3.9%** | | | |
| Ginsey Home Solutions, Inc. – Preferred Stock(C)(L) | 19,280 | **9,583** | **15,845** |
| **Leisure, Amusement, Motion Pictures, and Entertainment – 1.0%** | | | |
| Schylling, Inc. – Preferred Stock(C)(L) | 4,000 | **4,000** | **4,255** |
| **Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 1.1%** | | | |
| SBS Industries, LLC – Preferred Stock(C)(L) | 27,705 | **2,771** | **4,461** |
| **Oil and Gas – 0.3%** | | | |
| Tread Corporation – Preferred Stock(C)(Q)(T) | 12,998,639 | **3,768** | **1,140** |
| **Personal, Food, and Miscellaneous Services – 0.0%** | | | |
| B-Dry, LLC – Preferred Stock(C)(L) | 2,500 | **2,516** | **—** |
| **Total Preferred Equity** | | **$53,682** | **$106,462** |
| **Common Equity/Equivalents – 5.1%** | | | |
| **Cargo Transport – 0.6%** | | | |
| Diligent Delivery Systems – Common Stock Warrants(C)(L) | 8 | **$ 500** | **$ 2,327** |
| **Containers, Packaging, and Glass – 2.7%** | | | |
| Frontier Packaging, Inc. – Common Stock(C)(L) | 152 | **152** | **11,081** |
| **Farming and Agriculture – 0.6%** | | | |
| Jackrabbit, Inc. – Common Stock(C)(Q)(T) | 548 | **94** | **2,565** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 0.0%** | | | |
| Ginsey Home Solutions, Inc. – Common Stock(C)(L) | 63,747 | **8** | — |
| **Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 1.1%** | | | |
| SBS Industries, LLC – Common Stock(C)(L) | 221,500 | **222** | **4,487** |
| **Oil and Gas – 0.0%** | | | |
| Tread Corporation – Common Stock(C)(Q)(T) | 10,089,048 | **753** | — |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.1%** | | | |
| Funko Acquisition Holdings, LLC(M) – Common Units(C)(S) | 27,188 | **131** | **401** |

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

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**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2019**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **Personal, Food, and Miscellaneous Services – 0.0%** | | | |
| B-Dry, LLC – Common Stock(C)(L) | 2,500 | $ 300 | $ — |
| **Total Common Equity** | | **$ 2,160** | **$ 20,861** |
| **Total Non-Control/Non-Affiliate Investments** | | **$254,002** | **$313,750** |
| **AFFILIATE INVESTMENTS(O) – 72.8%** | | | |
| **Secured First Lien Debt – 42.8%** | | | |
| **Automobile – 1.4%** | | | |
| Meridian Rack & Pinion, Inc.(M) – Term Debt (L+11.5%, 14.0% Cash, Due 6/2019)(G)(K) | $ 9,660 | **$ 9,660** | **$ 5,796** |
| **Beverage, Food, and Tobacco – 2.2%** | | | |
| Head Country, Inc. – Term Debt (L+10.5%, 13.0% Cash, Due 2/2021)(L) | 9,050 | **9,050** | **9,050** |
| **Diversified/Conglomerate Manufacturing – 4.6%** | | | |
| D.P.M.S., Inc. – Term Debt (10.0% Cash, Due 10/2021)(I)(L) | 10,796 | 10,796 | 7,115 |
| Edge Adhesives Holdings, Inc.(M) – Term Debt (L+10.5%, 13.0% Cash, Due 2/2022)(K) | 9,300 | 9,300 | 8,951 |
| Edge Adhesives Holdings, Inc.(M) – Term Debt (L+11.8%, 14.2% Cash, Due 2/2022)(K) | 3,000 | 3,000 | 2,902 |
| | | **23,096** | **18,968** |
| **Diversified/Conglomerate Services – 14.2%** | | | |
| ImageWorks Display and Marketing Group, Inc. – Term Debt (L+11.0%, 13.5% Cash, Due 11/2022)(L) | 22,000 | 22,000 | 22,000 |
| J.R. Hobbs Co. – Atlanta, LLC – Term Debt (L+10.3%, 12.7% Cash, Due 10/2023)(L) | 36,000 | 36,000 | 36,000 |
| | | **58,000** | **58,000** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 8.2%** | | | |
| Brunswick Bowling Products, Inc. – Term Debt (L+10.0%, 12.5% Cash, Due 1/2023)(L) | 17,700 | 17,700 | 17,700 |
| Old World Christmas, Inc. – Term Debt (L+11.3%, 13.7% Cash, Due 10/2019)(L) | 15,770 | 15,770 | 15,770 |
| | | **33,470** | **33,470** |
| **Leisure, Amusement, Motion Pictures, and Entertainment – 2.2%** | | | |
| SOG Specialty Knives & Tools, LLC – Term Debt (L+4.0%, 6.5% Cash, Due 8/2022)(G)(L) | 8,399 | 8,399 | 8,399 |
| SOG Specialty Knives & Tools, LLC – Term Debt (Due 8/2020)(L)(R) | 538 | 538 | 538 |
| | | **8,937** | **8,937** |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 6.3%** | | | |
| The Mountain Corporation – Line of Credit, $400 available (L+5.0%, 9.0% Cash, Due 4/2020)(L) | 2,500 | 2,500 | 2,500 |
| Pioneer Square Brands, Inc. – Term Debt (L+12.0%, 14.5% Cash, Due 8/2022)(L) | 23,100 | 23,100 | 23,100 |
| | | **25,600** | **25,600** |
| **Telecommunications – 3.7%** | | | |
| B+T Group Acquisition, Inc.(M) – Line of Credit, $175 available (L+11.0%, 13.5% Cash, Due 12/2021)(L) | 1,225 | 1,225 | 1,225 |
| B+T Group Acquisition, Inc.(M) – Term Debt (L+11.0%, 13.5% Cash, Due 12/2021)(L) | 14,000 | 14,000 | 14,000 |
| | | **15,225** | **15,225** |
| **Total Secured First Lien Debt** | | **$183,038** | **$175,046** |

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2019**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **Secured Second Lien Debt – 8.6%** | | | |
| **Chemicals, Plastics, and Rubber – 4.1%** | | | |
| PSI Molded Plastics, Inc. – Term Debt (L+12.0%, 14.5% Cash, Due 1/2024)(G)(L) | $ 26,618 | **$26,618** | **$ 16,641** |
| **Diversified/Conglomerate Manufacturing – 3.2%** | | | |
| Alloy Die Casting Co.(M) – Term Debt (L+4.0%, 6.5% Cash, Due 4/2021)(K) | 12,215 | 12,215 | 12,032 |
| Alloy Die Casting Co.(M) – Term Debt (L+4.0%, 6.5% Cash, Due 4/2021)(K) | 175 | 175 | 172 |
| Alloy Die Casting Co.(M) – Term Debt (L+4.0%, 6.5% Cash, Due 4/2021)(K) | 910 | 910 | 896 |
| | | **13,300** | **13,100** |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 1.3%** | | | |
| The Mountain Corporation – Term Debt (L+4.0%, 7.0% Cash, Due 4/2024)(G)(L) | 11,700 | **11,700** | **5,169** |
| **Total Secured Second Lien Debt** | | **$51,618** | **$ 34,910** |
| **Preferred Equity – 21.0%** | | | |
| **Automobile – 0.0%** | | | |
| Meridian Rack & Pinion, Inc.(M) – Preferred Stock(C)(L) | 3,381 | **$ 3,381** | **$ —** |
| **Beverage, Food, and Tobacco – 0.7%** | | | |
| Head Country, Inc. – Preferred Stock(C)(L) | 4,000 | **4,000** | **2,887** |
| **Chemicals, Plastics, and Rubber – 0.0%** | | | |
| PSI Molded Plastics, Inc. – Preferred Stock(C)(L) | 58,598 | **9,730** | **—** |
| **Diversified/Conglomerate Manufacturing – 1.9%** | | | |
| Alloy Die Casting Co.(M) – Preferred Stock(C)(L) | 5,114 | 5,114 | 7,616 |
| Channel Technologies Group, LLC – Preferred Stock(C)(L) | 2,279 | 1,841 | — |
| Edge Adhesives Holdings, Inc.(M) – Preferred Stock(C)(L) | 3,774 | 3,774 | — |
| | | **10,729** | **7,616** |
| **Diversified/Conglomerate Services – 6.5%** | | | |
| ImageWorks Display and Marketing Group, Inc. – Preferred Stock(C)(L) | 67,490 | 6,749 | 8,526 |
| J.R. Hobbs Co. – Atlanta, LLC – Preferred Stock(C)(L) | 5,920 | 5,920 | 17,822 |
| | | **12,669** | **26,348** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 9.7%** | | | |
| Brunswick Bowling Products, Inc. – Preferred Stock(C)(L) | 4,943 | 4,943 | 23,747 |
| Old World Christmas, Inc. – Preferred Stock(C)(L) | 6,180 | 6,180 | 15,909 |
| | | **11,123** | **39,656** |
| **Leisure, Amusement, Motion Pictures, and Entertainment – 0.0%** | | | |
| SOG Specialty Knives & Tools, LLC – Preferred Stock(C)(L) | 11,249 | **11,249** | **139** |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 2.2%** | | | |
| The Mountain Corporation – Preferred Stock(C)(L) | 6,899 | 6,899 | — |
| Pioneer Square Brands, Inc. – Preferred Stock(C)(L) | 5,502 | 5,500 | 8,960 |
| | | **12,399** | **8,960** |
| **Telecommunications – 0.0%** | | | |
| B+T Group Acquisition, Inc.(M) – Preferred Stock(C)(L) | 12,841 | **4,196** | **—** |
| **Total Preferred Equity** | | **$79,476** | **$ 85,606** |

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2019**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **Common Equity – 0.4%** | | | |
| **Diversified/Conglomerate Manufacturing – 0.4%** | | | |
| Alloy Die Casting Co.(M) – Common Stock(C)(L) | 630 | $ 41 | $ 1,551 |
| Channel Technologies Group, LLC – Common Stock(C)(L) | 2,319,184 | — | — |
| D.P.M.S., Inc. – Common Stock(C)(L) | 627 | 1 | — |
| | | **42** | **1,551** |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.0%** | | | |
| The Mountain Corporation – Common Stock(C)(L) | 751 | **1** | **—** |
| **Total Common Equity** | | **$ 43** | **$ 1,551** |
| **Total Affiliate Investments** | | **$314,175** | **$297,113** |
| **CONTROL INVESTMENTS(P) – 3.2%:** | | | |
| **Secured Second Lien Debt – 2.4%** | | | |
| **Aerospace and Defense – 2.4%** | | | |
| Galaxy Tool Holding Corporation – Line of Credit, $0 available (L+4.5%, 7.0% Cash (1.0% Unused Fee), Due 8/2019)(L) | $ 5,000 | **$ 5,000** | **$ 5,000** |
| Galaxy Tool Holding Corporation – Term Debt (L+6.0%, 10.0% Cash, Due 8/2019)(L) | 5,000 | **5,000** | **5,000** |
| | | **$ 10,000** | **$ 10,000** |
| **Preferred Equity – 0.8%** | | | |
| **Aerospace and Defense – 0.8%** | | | |
| Galaxy Tool Holding Corporation – Preferred Stock(C)(L) | 5,517,444 | **$ 11,464** | **$ 3,309** |
| **Common Equity – 0.0%** | | | |
| **Aerospace and Defense – 0.0%** | | | |
| Galaxy Tool Holding Corporation – Common Stock(C)(L) | 88,843 | **$ 48** | $ — |
| **Total Control Investments** | | **$ 21,512** | **$ 13,309** |
| **TOTAL INVESTMENTS – 153.2%(V)** | | **$589,689** | **$624,172** |

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2019**
**(DOLLAR AMOUNTS IN THOUSANDS)**

(A) Certain of the securities listed are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $536.3 million at fair value, are pledged as collateral to our revolving line of credit, as described further in Note 5—*Borrowings* in the accompanying *Notes to Consolidated Financial Statements.* Additionally, under Section 55 of the Investment Company Act of 1940, as amended (the "1940 Act"), we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. As of March 31, 2019, our investment in Funko Acquisition Holdings, LLC ("Funko") is considered a non-qualifying asset under Section 55 of the 1940 Act and represents less than 0.1% of total investments, at fair value.

(B) Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate ("LIBOR" or "L"), which was 2.5% as of March 31, 2019. If applicable, paid-in-kind interest rates are noted separately from the cash interest rate. Certain securities are subject to an interest rate floor. The cash interest rate is the greater of the floor or 30-day LIBOR plus a spread. Due dates represent the contractual maturity date.

(C) Security is non-income producing.

(D) Category percentages represent the fair value of each category and subcategory as a percentage of net assets as of March 31, 2019.

(E) Unless indicated otherwise, all of our investments are valued using Level 3 inputs within the Financial Accounting Standards Board Accounting Standard Codification ("ASC") Topic 820, "*Fair Value Measurements and Disclosures*" ("ASC 820") fair value hierarchy. Refer to Note 3—*Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

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

(H) $5.1 million of the debt security was participated to a third party, but is accounted for as collateral for a secured borrowing under accounting principles generally accepted in the U.S. and presented as Secured borrowing on our accompanying *Consolidated Statements of Assets and Liabilities* as of March 31, 2019.

(I) Debt security has a fixed interest rate.

(J) Represents the principal balance for debt investments and the number of shares/units held for equity investments. Warrants are represented as a percentage of ownership, as applicable.

(K) Fair value was based on internal yield analysis or on estimates of value submitted by ICE Data Pricing and Reference Data, LLC (formerly Standard and Poor's Securities Evaluations, Inc.). Refer to Note 3—*Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

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

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

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

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

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

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

(S) Our investment in Funko was valued using Level 2 inputs within the ASC 820 fair value hierarchy. Our common units in Funko are convertible to class A common stock in Funko, Inc. upon meeting certain requirements. Fair value was based on the closing market price of shares of Funko, Inc. as of the reporting date, less a discount for lack of marketability. Funko, Inc. is traded on the Nasdaq Stock Market under the trading symbol "FNKO." Refer to Note 3—*Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

(T) Security was sold subsequent to March 31, 2019. Refer to Note 15—*Subsequent Events* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

(U) Refer to Note 11—*Commitments and Contingencies* in the accompanying *Notes to Consolidated Financial Statements* for additional information regarding this guaranty.

(V) Cumulative gross unrealized depreciation for federal income tax purposes is $98.8 million; cumulative gross unrealized appreciation for federal income tax purposes is $133.2 million. Cumulative net unrealized appreciation is $34.4 million, based on a tax cost of $589.8 million.

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS**
**MARCH 31, 2018**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **NON-CONTROL/NON-AFFILIATE INVESTMENTS(N) – 69.8%** | | | |
| **Secured First Lien Debt – 35.8%** | | | |
| **Chemicals, Plastics, and Rubber – 2.8%** | | | |
| Drew Foam Companies, Inc. – Term Debt (L+10.0%, 13.5% Cash, Due 7/2018)(Q) | $ 9,913 | **$ 9,913** | **$ 9,987** |
| **Containers, Packaging, and Glass – 2.7%** | | | |
| Frontier Packaging, Inc. – Term Debt (L+10.0%, 12.0% Cash, Due 12/2019)(L) | 9,500 | **9,500** | **9,500** |
| **Diversified/Conglomerate Services – 10.4%** | | | |
| Counsel Press, Inc. – Term Debt (L+11.8%, 13.6% Cash, Due 3/2020)(L) | 18,000 | 18,000 | 18,000 |
| Counsel Press, Inc. – Term Debt (L+13.0%, 14.9% Cash, Due 3/2020)(L) | 5,500 | 5,500 | 5,500 |
| Nth Degree, Inc. – Term Debt (L+11.5%, 13.4% Cash, Due 12/2020)(L) | 13,290 | 13,290 | 13,290 |
| | | **36,790** | **36,790** |
| **Farming and Agriculture – 4.5%** | | | |
| Jackrabbit, Inc. – Term Debt (L+10.0%, 13.5% Cash, Due 4/2018)(L) | 11,000 | 11,000 | 11,000 |
| Star Seed, Inc. – Term Debt (L+10.0%, 12.5% Cash, Due 5/2020)(L) | 5,000 | 5,000 | 5,000 |
| | | **16,000** | **16,000** |
| **Leisure, Amusement, Motion Pictures, and Entertainment – 7.8%** | | | |
| Schylling, Inc. – Term Debt (L+11.0%, 13.0%, Due 11/2018)(L) | 13,081 | 13,081 | 13,081 |
| Schylling, Inc. – Term Debt (L+11.0%, 13.0%, Due 11/2018)(T) | 8,500 | 8,500 | 8,500 |
| Schylling, Inc. – Term Debt (L+11.0%, 13.0%, Due 11/2018)(T) | 6,000 | 6,000 | 6,000 |
| | | **27,581** | **27,581** |
| **Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 5.6%** | | | |
| SBS Industries, LLC – Line of Credit, $1,500 available (L+8.5%, 10.4% Cash (1.0% Unused Fee), Due 6/2018)(L) | — | — | — |
| SBS Industries, LLC – Term Debt (L+12.0%, 14.0% Cash, Due 6/2020)(L) | 19,957 | 19,957 | 19,957 |
| | | **19,957** | **19,957** |
| **Oil and Gas – 0.9%** | | | |
| Tread Corporation – Line of Credit, $634 available (L+10.0%, 12.5% Cash, Due 3/2021)(G)(L) | 3,216 | **3,216** | **3,216** |
| **Personal, Food, and Miscellaneous Services – 1.1%** | | | |
| B-Dry, LLC – Line of Credit, $100 available (L+0.3%, 2.1% Cash (0.8% Unused Fee), Due 12/2018)(L) | 4,550 | 4,550 | 3,882 |
| B-Dry, LLC – Term Debt (L+0.3%, 2.1% Cash, Due 12/2019)(L) | 6,443 | 6,443 | — |
| B-Dry, LLC – Term Debt (L+0.3%, 2.1% Cash, Due 12/2019)(L) | 840 | 840 | — |
| | | **11,833** | **3,882** |
| **Total Secured First Lien Debt** | | **$134,790** | **$126,913** |
| **Secured Second Lien Debt – 8.6%** | | | |
| **Automobile – 1.1%** | | | |
| Country Club Enterprises, LLC – Term Debt (L+11.0%, 18.7% Cash, Due 5/2018)(L) | $ 4,000 | **$ 4,000** | **$ 4,000** |
| **Cargo Transport – 3.7%** | | | |
| Diligent Delivery Systems – Term Debt (L+8.0%, 10.0% Cash, Due 11/2022)(Q) | 13,000 | **12,916** | **13,000** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 3.8%** | | | |
| Ginsey Home Solutions, Inc. – Term Debt (L+10.0%, 13.5% Cash, Due 1/2021)(H)(L) | 13,300 | **13,300** | **13,300** |
| **Total Secured Second Lien Debt** | | **$ 30,216** | **$ 30,300** |
| **Preferred Equity – 17.3%** | | | |
| **Automobile – 0.3%** | | | |
| Country Club Enterprises, LLC – Preferred Stock(C)(L) | 7,304,792 | $ 7,725 | $ 1,010 |
| Country Club Enterprises, LLC – Guaranty ($2,000)(U) | — | — | — |
| | | **7,725** | **1,010** |

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2018**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **Chemicals, Plastics, and Rubber – 1.0%** | | | |
| Drew Foam Companies, Inc. – Preferred Stock(C)(Q) | 34,045 | **$ 3,375** | **$ 3,375** |
| **Containers, Packaging, and Glass – 0.4%** | | | |
| Frontier Packaging, Inc. – Preferred Stock(C)(L) | 1,373 | **1,373** | **1,428** |
| **Diversified/Conglomerate Services – 9.2%** | | | |
| Counsel Press, Inc. – Preferred Stock(C)(L) | 6,995 | 6,995 | 6,303 |
| Nth Degree, Inc. – Preferred Stock(C)(L) | 5,660 | 5,660 | 26,424 |
| | | **12,655** | **32,727** |
| **Farming and Agriculture – 1.4%** | | | |
| Jackrabbit, Inc. – Preferred Stock(C)(L) | 3,556 | 3,556 | 2,518 |
| Star Seed, Inc. – Preferred Stock(C)(L) | 1,499 | 1,499 | 2,376 |
| | | **5,055** | **4,894** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 3.5%** | | | |
| Ginsey Home Solutions, Inc. – Preferred Stock(C)(L) | 19,280 | **9,583** | **12,555** |
| **Leisure, Amusement, Motion Pictures, and Entertainment – 0.0%** | | | |
| Schylling, Inc. – Preferred Stock(C)(L) | 4,000 | **4,000** | **—** |
| **Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 0.6%** | | | |
| SBS Industries, LLC – Preferred Stock(C)(L) | 27,705 | **2,771** | **1,958** |
| **Oil and Gas – 0.9%** | | | |
| Tread Corporation – Preferred Stock(C)(L) | 12,998,639 | **3,768** | **3,335** |
| **Personal, Food, and Miscellaneous Services – 0.0%** | | | |
| B-Dry, LLC – Preferred Stock(C)(L) | 2,500 | **2,516** | **—** |
| **Total Preferred Equity** | | **$52,821** | **$ 61,282** |
| **Common Equity/Equivalents – 8.1%** | | | |
| **Cargo Transport – 0.7%** | | | |
| Diligent Delivery Systems – Common Stock Warrants(C)(Q) | 8% | **$ 500** | **$ 2,816** |
| **Chemicals, Plastics, and Rubber – 4.1%** | | | |
| Drew Foam Companies, Inc. – Common Stock(C)(Q) | 5,372 | **63** | **14,744** |
| **Containers, Packaging, and Glass – 3.0%** | | | |
| Frontier Packaging, Inc. – Common Stock(C)(L) | 152 | **152** | **10,459** |
| **Farming and Agriculture – 0.2%** | | | |
| Jackrabbit, Inc. – Common Stock(C)(L) | 548 | 94 | — |
| Star Seed, Inc. – Common Stock(C)(L) | 600 | 1 | 589 |
| | | **95** | **589** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 0.0%** | | | |
| Ginsey Home Solutions, Inc. – Common Stock(C)(L) | 63,747 | **8** | **—** |
| **Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 0.0%** | | | |
| SBS Industries, LLC – Common Stock(C)(L) | 221,500 | **222** | **—** |
| **Oil and Gas – 0.0%** | | | |
| Tread Corporation – Common Stock(C)(L) | 10,089,048 | **753** | **—** |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.1%** | | | |
| Funko Acquisition Holdings, LLC(M) – Common Units(C)(S) | 67,873 | **167** | **194** |

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2018**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **Personal, Food, and Miscellaneous Services – 0.0%** | | | |
| B-Dry, LLC – Common Stock(C)(L) | 2,500 | $ 300 | $ — |
| **Total Common Equity** | | **$ 2,260** | **$ 28,802** |
| **Total Non-Control/Non-Affiliate Investments** | | **$220,087** | **$247,297** |
| **AFFILIATE INVESTMENTS(O) – 95.8%** | | | |
| **Secured First Lien Debt – 49.1%** | | | |
| **Automobile – 2.3%** | | | |
| Meridian Rack & Pinion, Inc.(M) – Term Debt (L+11.5%, 13.5% Cash, Due 4/2019)(K) | $ 9,660 | **$ 9,660** | **$ 8,018** |
| **Beverage, Food, and Tobacco – 2.6%** | | | |
| Head Country, Inc. – Term Debt (L+10.5%, 12.5% Cash, Due 2/2019)(L) | 9,050 | **9,050** | **9,050** |
| **Diversified/Conglomerate Manufacturing – 5.0%** | | | |
| D.P.M.S., Inc. – Term Debt (10.0% Cash, Due 10/2021)(I)(L) | 8,795 | 8,795 | 7,028 |
| Edge Adhesives Holdings, Inc.(M) – Term Debt (L+10.5%, 12.5% Cash, Due 2/2019)(K) | 9,300 | 9,300 | 8,742 |
| Edge Adhesives Holdings, Inc.(M) – Term Debt (L+11.8%, 13.8% Cash, Due 2/2019)(K) | 2,400 | 2,400 | 2,268 |
| | | **20,495** | **18,038** |
| **Diversified/Conglomerate Services – 12.2%** | | | |
| ImageWorks Display and Marketing Group, Inc. – Line of Credit, $2,700 available (L+9.0%, 10.9% Cash, Due 5/2018)(L) | 300 | 300 | 300 |
| ImageWorks Display and Marketing Group, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 11/2022)(L) | 22,000 | 22,000 | 22,000 |
| J.R. Hobbs Co. – Atlanta, LLC – Term Debt (L+11.5%, 13.4% Cash, Due 2/2022)(L) | 21,000 | 21,000 | 21,000 |
| | | **43,300** | **43,300** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 9.4%** | | | |
| Brunswick Bowling Products, Inc. – Term Debt (L+10.0%, 12.0% Cash, Due 1/2023)(L) | 17,700 | 17,700 | 17,700 |
| Old World Christmas, Inc. – Term Debt (L+11.3%, 13.3% Cash, Due 10/2019)(L) | 15,770 | 15,770 | 15,770 |
| | | **33,470** | **33,470** |
| **Leisure, Amusement, Motion Pictures, and Entertainment – 4.4%** | | | |
| SOG Specialty Knives & Tools, LLC – Term Debt (L+7.3%, 9.3% Cash, Due 8/2020)(L) | 6,200 | 6,200 | 6,200 |
| SOG Specialty Knives & Tools, LLC – Term Debt (L+8.3%, 10.3% Cash, Due 8/2020)(L) | 12,200 | 12,200 | 8,827 |
| SOG Specialty Knives & Tools, LLC – Term Debt (Due 8/2020)(L)(R) | 538 | 538 | 440 |
| | | **18,938** | **15,467** |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 6.6%** | | | |
| Pioneer Square Brands, Inc. – Line of Credit, $600 available (L+9.0%, 10.9% Cash (1.0% Unused Fee), Due 4/2018)(L) | 2,400 | 2,400 | 2,400 |
| Pioneer Square Brands, Inc. – Term Debt (L+12.0%, 13.9% Cash, Due 8/2022)(L) | 21,000 | 21,000 | 21,000 |
| | | **23,400** | **23,400** |
| **Telecommunications – 4.0%** | | | |
| B+T Group Acquisition, Inc.(M) – Term Debt (L+11.0%, 13.0% Cash, Due 12/2019)(L) | 14,000 | **14,000** | **14,000** |
| **Textiles and Leather – 2.6%** | | | |
| Logo Sportswear, Inc. – Term Debt (L+10.5%, 12.5% Cash, Due 3/2020)(L) | 9,200 | **9,200** | **9,200** |
| **Total Secured First Lien Debt** | | **$181,513** | **$173,943** |

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2018**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **Secured Second Lien Debt – 17.5%** | | | |
| **Chemicals, Plastics, and Rubber – 7.0%** | | | |
| PSI Molded Plastics, Inc. – Term Debt (L+12.0%, 13.9% Cash, Due 1/2024)(L) | $ 24,618 | **$24,618** | **$ 24,618** |
| **Diversified/Conglomerate Manufacturing – 2.8%** | | | |
| Alloy Die Casting Co.(M) – Term Debt (L+11.5%, 13.5% Cash, Due 4/2021)(G)(K) | 12,215 | 12,215 | 9,161 |
| Alloy Die Casting Co.(M) – Term Debt (L+11.5%, 13.5% Cash, Due 4/2021)(G)(K) | 175 | 175 | 131 |
| Alloy Die Casting Co.(M) – Term Debt (Due 4/2021)(K)(R) | 910 | 910 | 687 |
| | | **13,300** | **9,979** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 4.5%** | | | |
| Cambridge Sound Management, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 8/2021)(L) | 16,000 | **16,000** | **16,000** |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 3.2%** | | | |
| The Mountain Corporation – Term Debt (L+4.0%, 7.0% Cash, Due 8/2021)(L) | 18,600 | 18,600 | 8,692 |
| The Mountain Corporation – Term Debt (Due 8/2021)(L)(R) | 1,000 | 1,000 | 1,000 |
| The Mountain Corporation – Term Debt (Due 8/2021)(L)(R) | 1,500 | 1,500 | 1,500 |
| The Mountain Corporation – Delayed Draw Term Debt, $750 available (Due 8/2021)(L)(R) | 250 | 250 | 250 |
| | | **21,350** | **11,442** |
| **Total Secured Second Lien Debt** | | **$75,268** | **$ 62,039** |
| **Preferred Equity – 29.2%** | | | |
| **Automobile – 0.2%** | | | |
| Meridian Rack & Pinion, Inc.(M) – Preferred Stock(C)(L) | 3,381 | **$ 3,381** | **$ 802** |
| **Beverage, Food, and Tobacco – 0.7%** | | | |
| Head Country, Inc. – Preferred Stock(C)(L) | 4,000 | **4,000** | **2,555** |
| **Cargo Transport – 0.0%** | | | |
| NDLI, Inc. – Preferred Stock(C)(L) | 3,600 | **3,600** | **—** |
| **Chemicals, Plastics, and Rubber – 0.9%** | | | |
| PSI Molded Plastics, Inc. – Preferred Stock(C)(L) | 51,098 | **8,980** | **3,016** |
| **Diversified/Conglomerate Manufacturing – 0.5%** | | | |
| Alloy Die Casting Co.(M) – Preferred Stock(C)(L) | 5,114 | 5,114 | — |
| Channel Technologies Group, LLC – Preferred Stock(C)(L) | 2,279 | 1,841 | — |
| Edge Adhesives Holdings, Inc.(M) – Preferred Stock(C)(L) | 3,774 | 3,774 | 1,925 |
| | | **10,729** | **1,925** |
| **Diversified/Conglomerate Services – 6.8%** | | | |
| ImageWorks Display and Marketing Group, Inc. – Preferred Stock(C)(L) | 67,490 | 6,750 | 9,422 |
| J.R. Hobbs Co. – Atlanta, LLC – Preferred Stock(C)(L) | 5,920 | 5,920 | 14,480 |
| | | **12,670** | **23,902** |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 15.0%** | | | |
| Brunswick Bowling Products, Inc. – Preferred Stock(C)(L) | 4,943 | 4,943 | 16,615 |
| Cambridge Sound Management, Inc. – Preferred Stock(C)(L) | 4,500 | 4,500 | 26,178 |
| Old World Christmas, Inc. – Preferred Stock(C)(L) | 6,180 | 6,180 | 10,411 |
| | | **15,623** | **53,204** |
| **Leisure, Amusement, Motion Pictures, and Entertainment – 0.0%** | | | |
| SOG Specialty Knives & Tools, LLC – Preferred Stock(C)(L) | 9,749 | **9,749** | **—** |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 2.2%** | | | |
| The Mountain Corporation – Preferred Stock(C)(L) | 6,899 | 6,899 | — |
| Pioneer Square Brands, Inc. – Preferred Stock(C)(L) | 5,502 | 5,500 | 7,800 |
| | | **12,399** | **7,800** |
| **Telecommunications – 0.0%** | | | |
| B+T Group Acquisition, Inc.(M) – Preferred Stock(C)(L) | 12,841 | **4,196** | **—** |

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2018**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| Company and Investment(A)(B)(D)(E) | Principal/Shares/ Units(F)(J) | Cost | Fair Value |
|---|---|---|---|
| **Textiles and Leather – 2.9%** | | | |
| Logo Sportswear, Inc. – Preferred Stock(C)(L) | 1,550 | $ 1,096 | $ 10,207 |
| **Total Preferred Equity** | | $ 86,423 | $103,411 |
| **Common Equity – 0.0%** | | | |
| **Cargo Transport – 0.0%** | | | |
| NDLI, Inc. – Common Stock(C)(L) | 545 | $ — | $ — |
| **Diversified/Conglomerate Manufacturing – 0.0%** | | | |
| Alloy Die Casting Co.(M) – Common Stock(C)(L) | 630 | 41 | — |
| Channel Technologies Group, LLC – Common Stock(C)(L) | 2,319,184 | — | — |
| D.P.M.S., Inc. – Common Stock(C)(L) | 627 | 1 | — |
| | | 42 | — |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.0%** | | | |
| The Mountain Corporation – Common Stock(C)(L) | 751 | 1 | — |
| **Total Common Equity** | | $ 43 | $ — |
| **Total Affiliate Investments** | | $343,247 | $339,393 |
| **CONTROL INVESTMENTS(P) – 3.5%:** | | | |
| **Secured First Lien Debt – 1.4%** | | | |
| **Aerospace and Defense – 1.4%** | | | |
| Galaxy Tool Holding Corporation – Line of Credit, $0 available (L+4.5%, 6.5% Cash (1.0% Unused Fee), Due 8/2019)(L) | $ 5,000 | $ 5,000 | $ 5,000 |
| **Secured Second Lien Debt – 1.4%** | | | |
| **Aerospace and Defense – 1.4%** | | | |
| Galaxy Tool Holding Corporation – Term Debt (L+6.0%, 10.0% Cash, Due 8/2019)(L) | $ 5,000 | $ 5,000 | $ 5,000 |
| **Preferred Equity – 0.7%** | | | |
| **Aerospace and Defense – 0.7%** | | | |
| Galaxy Tool Holding Corporation – Preferred Stock(C)(L) | 5,517,444 | $ 11,464 | $ 2,457 |
| **Common Equity – 0.0%** | | | |
| **Aerospace and Defense – 0.0%** | | | |
| Galaxy Tool Holding Corporation – Common Stock(C)(L) | 88,843 | $ 48 | $ — |
| **Total Control Investments** | | $ 21,512 | $ 12,457 |
| **TOTAL INVESTMENTS – 169.2%(V)** | | $584,846 | $599,147 |

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

**GLADSTONE INVESTMENT CORPORATION**
**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**
**MARCH 31, 2018**
**(DOLLAR AMOUNTS IN THOUSANDS)**

(A) Certain of the securities listed are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling $504.0 million at fair value, are pledged as collateral to our revolving line of credit, as described further in Note 5—*Borrowings* in the accompanying *Notes to Consolidated Financial Statements.* Additionally, under Section 55 of the Investment Company Act of 1940, as amended (the “1940 Act”), we may not acquire any non-qualifying assets unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. As of March 31, 2018, our investment in Funko Acquisition Holdings, LLC (“Funko”) is considered a non-qualifying asset under Section 55 of the 1940 Act and represents less than 0.1% of total investments, at fair value.

(B) Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate (“LIBOR” or “L”), which was 1.9% as of March 31, 2018. If applicable, paid-in-kind interest rates are noted separately from the cash interest rate. Certain securities are subject to an interest rate floor. The cash interest rate is the greater of the floor or 30-day LIBOR plus a spread. Due dates represent the contractual maturity date.

(C) Security is non-income producing.

(D) Category percentages represent the fair value of each category and subcategory as a percentage of net assets as of March 31, 2018.

(E) Unless indicated otherwise, all of our investments are valued using Level 3 inputs within the Financial Accounting Standards Board Accounting Standard Codification (“ASC”) Topic 820, “*Fair Value Measurements and Disclosures*” (“ASC 820”) fair value hierarchy. Refer to Note 3—*Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

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

(H) $5.1 million of the debt security was participated to a third party, but is accounted for as collateral for a secured borrowing under accounting principles generally accepted in the U.S. and presented as Secured borrowing on our accompanying *Consolidated Statements of Assets and Liabilities* as of March 31, 2018.

(I) Debt security has a fixed interest rate.

(J) Represents the principal balance for debt investments and the number of shares/units held for equity investments. Warrants are represented as a percentage of ownership, as applicable.

(K) Fair value was based on internal yield analysis or on estimates of value submitted by ICE Data Pricing and Reference Data, LLC (formerly Standard and Poor’s Securities Evaluations, Inc.). Refer to Note 3—*Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

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

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

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

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

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

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

(S) Our investment in Funko was valued using Level 2 inputs within the ASC 820 fair value hierarchy. Our common units in Funko are convertible to class A common stock in Funko, Inc. upon the expiration of a lock-up agreement and meeting certain other requirements. Fair value was based on the closing market price of shares of Funko, Inc. as of the reporting date, less a discount for lack of marketability. Funko, Inc. is traded on the Nasdaq Stock Market under the trading symbol “FNKO.” Refer to Note 3—*Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

(T) New portfolio investment valued at cost, as it was determined that the price paid during the three months ended March 31, 2018 best represents fair value as of March 31, 2018.

(U) Refer to Note 11—*Commitments and Contingencies* in the accompanying *Notes to Consolidated Financial Statements* for additional information regarding this guaranty.

(V) Cumulative gross unrealized depreciation for federal income tax purposes is $95.2 million; cumulative gross unrealized appreciation for federal income tax purposes is $113.6 million. Cumulative net unrealized appreciation is $18.4 million, based on a tax cost of $580.8 million.

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

**GLADSTONE INVESTMENT CORPORATION**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2019**
**(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA AND AS OTHERWISE INDICATED)**

## NOTE 1. ORGANIZATION

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

Gladstone Business Investment, LLC (“Business Investment”), a wholly-owned subsidiary of ours, was established on August 11, 2006 for the sole purpose of holding certain investments pledged as collateral under our line of credit. The financial statements of Business Investment are consolidated with those of Gladstone Investment. We also have significant subsidiaries (as defined under Rule 1-02(w) of the U.S. Securities and Exchange Commission’s (“SEC”) Regulation S-X) whose financial statements are not consolidated with ours. Refer to Note 14 —*Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

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

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation*

The *Consolidated Financial Statements* and these accompanying notes are prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) and conform to the applicable requirements of Regulation S-X. Management believes it has made all necessary adjustments so that our accompanying *Consolidated Financial Statements* are presented fairly and that all such adjustments are of a normal recurring nature. Our accompanying *Consolidated Financial Statements* include our accounts and the accounts of our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

*Consolidation*

In accordance with Article 6 of Regulation S-X, we do not consolidate portfolio company investments. Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants (“AICPA”) Audit and Accounting Guide for Investment Companies, codified in ASC 946, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries.

*Use of Estimates*

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

*Reclassifications*

Certain prior period amounts have been reclassified to conform to the current period presentation in the *Consolidated Financial Statements* and the accompanying *Notes to Consolidated Financial Statements.* Reclassifications did not impact net increase in net assets resulting from operations, total assets, total liabilities or total net assets, or Consolidated Statements of Changes in Net Assets and Consolidated Statements of Cash Flows classifications.

*Classification of Investments*

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

- *Non-Control/Non-Affiliate Investments* — Non-Control/Non-Affiliate investments are those that are neither control nor affiliate investments and in which we typically own less than 5.0% of the issued and outstanding voting securities;
- *Affiliate Investments* — Affiliate investments are those that are not Control investments and in which we own, with the power to vote, between and inclusive of 5.0% and 25.0% of the issued and outstanding voting securities; and
- *Control Investments* — Control investments are those where we have the power to exercise a controlling influence over the management or policies of the portfolio company, which may include owning, with the power to vote, more than 25.0% of the issued and outstanding voting securities.

*Investment Valuation Policy*

Accounting Recognition

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

Board Responsibility

In accordance with the 1940 Act, our Board of Directors has the ultimate responsibility for reviewing and determining, in good faith, the fair value of our investments for which market quotations are not readily available based on our investment valuation policy (which has been approved by our Board of Directors) (the "Policy"). Such review occurs in three phases. First, prior to its quarterly meetings, the Board of Directors receives written valuation recommendations and supporting materials provided by professionals of the Adviser and Administrator with oversight and direction from the chief valuation officer (the "Valuation Team"). Second, the Valuation Committee of our Board of Directors (comprised entirely of independent directors) meets to review the valuation recommendations and supporting materials, presented by the chief valuation officer. Third, after the Valuation Committee concludes its meeting, it and the chief valuation officer present the Valuation Committee's findings to the entire Board of Directors so that the full Board of Directors may review and determine in good faith the fair value of such investments in accordance with the Policy.

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

Use of Third Party Valuation Firms

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

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

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

Valuation Techniques

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

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

  TEV is primarily calculated using EBITDA; however, TEV may also be calculated using revenue multiples or a discounted cash flow ("DCF") analysis whereby future expected cash flows of the portfolio company are discounted to determine a net present value using estimated risk-adjusted discount rates, which incorporate adjustments for nonperformance and liquidity risks. Generally, the Valuation Team uses a DCF analysis to calculate TEV to corroborate estimates of value for our equity investments where we do not have the ability to effectuate a sale of a portfolio company or for debt of credit-impaired portfolio companies.

- *Yield Analysis* — The Valuation Team generally determines the fair value of our debt investments for which we do not have the ability to effectuate a sale of the applicable portfolio company using the yield analysis, which includes a DCF calculation and assumptions that the Valuation Team believes market participants would use, including: estimated remaining life, current market yield, current leverage, and interest rate spreads. This technique develops a modified discount rate that incorporates risk premiums including, among other things, increased probability of default, increased loss upon default, and increased liquidity risk. Generally, the Valuation Team uses the yield analysis to corroborate both estimates of value provided by ICE and market quotes.

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

The Valuation Team may take further steps to consider additional information to validate that price in accordance with the Policy. For securities that are publicly traded, we generally base fair value on the closing market price of the securities we hold as of the reporting date. For restricted securities that are publicly traded, we generally base fair value on the closing market price of the securities we hold as of the reporting date less a discount for the restriction, which includes consideration of the nature and term to expiration of the restriction.

- *Investments in Funds* — For equity investments in other funds for which we cannot effectuate a sale of the fund, the Valuation Team generally determines the fair value of our invested capital at the Net Asset Value ("NAV") provided by the fund. Any invested capital that is not yet reflected in the NAV provided by the fund is valued at par value. The Valuation Team may also determine fair value of our investments in other investment funds based on the capital accounts of the underlying entity.

In addition to the valuation techniques listed above, the Valuation Team may also consider other factors when determining the fair value of our investments, including: the nature and realizable value of the collateral, including external parties' guaranties, any relevant offers or letters of intent to acquire the portfolio company, timing of expected loan repayments, and the markets in which the portfolio company operates.

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

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

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

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

*Revenue Recognition*

Interest Income Recognition

Interest income, adjusted for amortization of premiums, amendment fees, and acquisition costs and the accretion of discounts, is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when a loan becomes 90 days or more past due, or if our qualitative assessment indicates that the debtor is unable to service its debt or other obligations, we will place the loan on non-accrual status and cease recognizing interest income on that loan until the borrower has demonstrated the ability and intent to pay contractual amounts due. However, we remain contractually entitled to this interest. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis, depending upon management's judgment. Generally, non-accrual loans are restored to accrual status when past-due principal and interest are paid, and, in management's judgment, are likely to remain current, or, due to a restructuring, the interest income is deemed to be collectible. As of March 31, 2019, certain of our loans to B-Dry, LLC, Meridian Rack & Pinion, Inc., The Mountain Corporation ("The Mountain"), PSI Molded Plastics, Inc., and SOG Specialty Knives & Tools, LLC ("SOG") were on non-accrual status, with an aggregate debt cost basis of $68.3 million, or 15.4% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $21.9 million, or 5.4% of the fair value of all debt investments in our portfolio. As of March 31, 2018, certain of our loans to Alloy Die Casting Co. ("ADC") and Tread Corporation ("Tread") were on non-accrual status, with an aggregate debt cost basis of $15.6 million, or 3.6% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of $12.5 million, or 3.1% of the fair value of all debt investments in our portfolio.

Paid-in-kind ("PIK") interest, computed at the contractual rate specified in the loan agreement, is added to the principal balance of the loan and recorded as interest income. As of March 31, 2019 and 2018, we did not have any loans with a PIK interest component.

Success Fee Income Recognition

We record success fees as income when earned, which often occurs upon receipt of cash. Success fees are generally contractually due upon a change of control in a portfolio company, typically resulting from an exit or sale, and are non-recurring.

Dividend Income Recognition

We accrue dividend income on preferred and common equity securities to the extent that such amounts are expected to be collected and if we have the option to collect such amounts in cash or other consideration. During the year ended March 31, 2019, we re-characterized $0.5 million of dividend income from our investment in Logo Sportswear, Inc. ("Logo"), which was originally recorded during our fiscal year ended March 31, 2018, as a return of capital. During the year ended March 31, 2017, we re-characterized $0.5 million of dividend income from our investment in Behrens Manufacturing, LLC, which was originally recorded during our fiscal year ended March 31, 2016, as a return of capital.

*Cash and Cash Equivalents*

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

*Restricted Cash and Cash Equivalents*

Restricted cash and cash equivalents are generally cash and cash equivalents held in escrow received as part of an investment exit. Restricted cash and cash equivalents are carried at cost, which approximates fair value.

*Deferred Financing and Offering Costs*

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

*Related Party Fees*

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

We are also party to the Administration Agreement with the Administrator, which is owned and controlled by our chairman and chief executive officer, whereby we pay separately for administrative services.

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

*Federal Income Taxes*

We intend to continue to maintain our qualification as a RIC under subchapter M of the Code for federal income tax purposes. As a RIC, we generally are not subject to federal income tax on the portion of our taxable income and gains distributed to our stockholders. To maintain our qualification as a RIC, we must maintain our status as a BDC and meet certain source-of-income and asset diversification requirements. In addition, in order to qualify to be taxed as a RIC, we must distribute to stockholders at least 90% of our taxable ordinary income plus the excess of our net short-term capital gains over net long-term capital losses ("Investment Company Taxable Income"). Our policy generally is to make distributions to our stockholders in an amount up to 100% of our Investment Company Taxable Income.

We intend to continue to make sufficient distributions to qualify as a RIC and to generally limit taxable income, although we may retain some or all of our net long-term capital gains and pay income taxes on such gains. Refer to Note 10 — *Federal and State Income Taxes* for additional information regarding our RIC requirements.

FASB ASC 740, *Income Taxes* ("ASC 740") requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authorities. Tax positions not deemed to satisfy the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current fiscal year. We have evaluated the implications of ASC 740 for all open tax years and in all major tax jurisdictions and determined that there is no material impact on our accompanying *Consolidated Financial Statements*. Our federal tax returns for fiscal years 2018, 2017, and 2016 remain subject to examination by the Internal Revenue Service ("IRS").

*Distributions*

Distributions to stockholders are recorded on the ex-dividend date. We are required to distribute at least 90% of our Investment Company Taxable Income for each taxable year as a distribution to our stockholders in order to maintain our ability to be taxed as a RIC under Subchapter M of the Code. It is our policy to generally pay out as a distribution up to 100% of those amounts. The amount to be paid is determined by our Board of Directors quarterly and is based upon management's estimate of Investment Company Taxable Income and net long-term capital gains. Based on that estimate, our Board of Directors declares monthly distributions, and supplemental distributions, as applicable, to common stockholders each quarter. At fiscal year-end, we may elect to treat a portion of the first distributions paid after year-end as having been paid in the prior year in accordance with Section 855(a) of the Code. We may retain some or all of our net long-term capital gains, if any, and designate them as deemed distributions, or distribute these capital gains to common stockholders in cash. If we elect to retain net long-term capital gains and deem them distributed, each U.S. common stockholder will be treated as if they received a distribution of their pro rata share of the retained net long-term capital gain and the U.S. federal income tax paid. As a result, each common stockholder will (i) be required to report their pro rata share of the retained gain on their tax return as long-term capital gain, (ii) receive a refundable tax credit for their pro rata share of federal tax paid by us on the retained gain, and (iii) increase the tax basis of their shares of common stock by an amount equal to the deemed distribution less the tax credit. Refer to Note 9 — *Distributions to Common Stockholders* for further information.

Our common stockholders who hold their shares through our transfer agent, Computershare, Inc. ("Computershare"), have the option to participate in a dividend reinvestment plan offered by Computershare, as the plan agent. This is an "opt in" dividend reinvestment plan, meaning that common stockholders may elect to have their cash distributions automatically reinvested in additional shares of our common stock. Common stockholders who do not so elect will receive their distributions in cash. Any distributions reinvested under the plan will be taxable to a common stockholder to the same extent, and with the same character, as if the common stockholder had received the distribution in cash. The common stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the dollar amount that would have been received if the U.S. stockholder had received the dividend or distribution in cash. The additional common shares will have a new holding period commencing on the day following the date on which the shares are credited to the common stockholder's account. Computershare purchases shares in the open market in connection with the obligations under the plan. The dividend reinvestment plan is not open to holders of our preferred stock.

*Recent Accounting Pronouncements*

In August 2018, the FASB issued Accounting Standards Update 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value*" ("ASU 2018-13"), which modifies the disclosure requirements in ASC 820. We are currently assessing the impact of ASU 2018-13 and do not anticipate a material impact on our disclosures. ASU 2018-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted.

In November 2016, the FASB issued Accounting Standards Update 2016-18, "*Restricted Cash (a consensus of the Emerging Issues Task Force)*" ("ASU 2016-18"), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted, and we adopted ASU 2016-18 effective April 1, 2018. The adoption of ASU 2016-18 did not have a material impact on our financial position, results of operations, or cash flows.

In August 2016, the FASB issued Accounting Standards Update 2016-15, "*Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*" ("ASU 2016-15"), which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted, and we adopted ASU 2016-15 effective April 1, 2018. The adoption of ASU 2016-15 did not have a material impact on our financial position, results of operations, or cash flows.

In January 2016, the FASB issued Accounting Standards Update2016-01, "*Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*" ("ASU 2016-01"), which changes how entities measure certain equity investments and how entities present changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted for certain aspects of ASU 2016-01 relating to the recognition of changes in fair value of financial liabilities when the fair value option is elected, and we adopted ASU 2016-01 effective April 1, 2018. The adoption of ASU2016-01 did not have a material impact on our financial position, results of operations, or cash flows.

In May 2014, the FASB issued Accounting Standards Update2014-09, "*Revenue from Contracts with Customers*" ("ASU 2014-09"), which was amended in March 2016 by FASB Accounting Standards Update 2016-08, *"Principal versus Agent Considerations"* ("ASU 2016-08"), in April 2016 by FASB Accounting Standards Update 2016-10, *"Identifying Performance Obligations and Licensing"* ("ASU 2016-10"), in May 2016 by FASB Accounting Standards Update 2016-12, *"Narrow-Scope Improvements and Practical Expedients"* ("ASU 2016-12"), and in December 2016 by FASB Accounting Standards Update 2016-20, *"Technical Corrections and Improvements to Topic 606"* ("ASU 2016-20"). ASU 2014-09, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and will expand disclosures about revenue. In July 2015, the FASB issued Accounting Standards Update 2015-14, "*Deferral of the Effective Date,*" which deferred the effective date of ASU 2014-09. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20, is now effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years, with early adoption permitted for annual reporting periods beginning after December 15, 2016 and interim periods within those years. We adopted ASU 2014-09, as amended, effective April 1, 2018. The adoption of ASU2014-09, as amended, did not result in a material change in the timing of revenue recognition or a material impact on our financial position, results of operations, or cash flows from adopting this standard.

**NOTE 3. INVESTMENTS**

*Fair Value*

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

- *Level 1* — inputs to the valuation methodology are quoted prices (unadjusted) for identical financial instruments in active markets;
- *Level 2* — inputs to the valuation methodology include quoted prices for similar financial instruments in active or inactive markets, and inputs that are observable for the financial instrument, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists, or instances where prices vary substantially over time or among brokered market makers; and
- *Level 3* — inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect assumptions that market participants would use when pricing the financial instrument and can include the Valuation Team's assumptions based upon the best available information.

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

As of March 31, 2019 and 2018, all of our investments were valued using Level 3 inputs within the ASC 820 fair value hierarchy, except for our investment in Funko Acquisition Holdings, LLC ("Funko"), which was valued using Level 2 inputs.

We transfer investments in and out of Level 1, 2 and 3 of the valuation hierarchy as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. There were no transfers in or out of Level 1, 2 and 3 during the year ended March 31, 2019. During the year ended March 31, 2018, we transferred our investment in Funko from Level 3 to Level 2 as a result of the initial public offering of Funko, Inc. in November 2017 as our units in Funko can be converted into common shares of Funko, Inc. upon meeting certain requirements; and, in April 2017, we transferred our investment in AquaVenture Holdings Limited, f/k/a Quench Holdings Corp. from Level 2 to Level 1 as a result of the expiration of the lock-up period from the initial public offering in October 2016 and subsequently sold our investment.

As of March 31, 2019 and 2018, our investments, by security type, at fair value were categorized as follows within the ASC 820 fair value hierarchy:

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **As of March 31, 2019:** | | | | |
| Secured first lien debt | $331,090 | $ — | $ — | $ 331,090 |
| Secured second lien debt | 75,293 | — | — | 75,293 |
| Preferred equity | 195,377 | — | — | 195,377 |
| Common equity/equivalents | 22,412 | — | 401(A) | 22,011 |
| **Total Investments at March 31, 2019** | **$624,172** | **$ —** | **$ 401** | **$ 623,771** |

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **As of March 31, 2018:** | | | | |
| Secured first lien debt | $305,856 | $ — | $ — | $ 305,856 |
| Secured second lien debt | 97,339 | — | — | 97,339 |
| Preferred equity | 167,150 | — | — | 167,150 |
| Common equity/equivalents | 28,802 | — | 194(B) | 28,608 |
| **Total Investments at March 31, 2018** | **$599,147** | **$ —** | **$ 194** | **$ 598,953** |

(A) Fair value was determined based on the closing market price of shares of Funko, Inc. (our units in Funko can be converted into common shares of Funko, Inc.) at the reporting date less a discount for lack of marketability, as our investment was subject to certain restrictions.

(B) Fair value was determined based on the closing market price of shares of Funko, Inc. (our units in Funko can be converted into shares of Funko, Inc.) at the reporting date less a discount for lack of marketability as our investment was subject to a 180-day lock-up period, which expired in May 2018, and other restrictions.

The following table presents our investments, valued using Level 3 inputs within the ASC 820 fair value hierarchy, and carried at fair value as of March 31, 2019 and 2018, by caption on our accompanying *Consolidated Statements of Assets and Liabilities,* and by security type:

| | Total Recurring Fair Value Measurements Reported in *Consolidated Statements of Assets and Liabilities* Valued Using Level 3 Inputs March 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Non-Control/Non-Affiliate Investments** | | |
| Secured first lien debt | **$ 156,044** | $ 126,913 |
| Secured second lien debt | **30,383** | 30,300 |
| Preferred equity | **106,462** | 61,282 |
| Common equity/equivalents(A) | **20,460** | 28,608 |
| **Total Non-Control/Non-Affiliate Investments** | **313,349** | 247,103 |
| **Affiliate Investments** | | |
| Secured first lien debt | **175,046** | 173,943 |
| Secured second lien debt | **34,910** | 62,039 |
| Preferred equity | **85,606** | 103,411 |
| Common equity/equivalents | **1,551** | — |
| **Total Affiliate Investments** | **297,113** | 339,393 |
| **Control Investments** | | |
| Secured first lien debt | — | 5,000 |
| Secured second lien debt | **10,000** | 5,000 |
| Preferred equity | **3,309** | 2,457 |
| Common equity/equivalents | — | — |
| **Total Control Investments** | **13,309** | 12,457 |
| **Total investments at fair value using Level 3 inputs** | **$ 623,771** | $ 598,953 |

(A) Excludes our investment in Funko with a fair value of \$0.4 million and \$0.2 million as of March 31, 2019 and 2018, respectively, which was valued using Level 2 inputs.

In accordance with ASC 820, the following table provides quantitative information about our investments valued using Level 3 fair value measurements as of March 31, 2019 and 2018. The table below is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements. The weighted-average calculations in the table below are based on the principal balances for all debt-related calculations and on the cost basis for all equity-related calculations for the particular input.

| | Quantitative Information about Level 3 Fair Value Measurements | | | | | |
|---|---|---|---|---|---|---|
| | Fair Value as of | | Valuation Technique/ Methodology | Unobservable Input | Range / Weighted-Average as of | |
| | March 31, 2019 | March 31, 2018 | | | March 31, 2019 | March 31, 2018 |
| Secured first lien debt | **$ 313,440**(A) | $ 286,828(A) | TEV | EBITDA multiple | 5.0x – 8.6x / 6.4x | 4.7x – 8.3x / 6.1x |
| | | | | EBITDA | $1,303 – $20,691 / $7,355 | $1,298 – $14,085 / $5,575 |
| | | | | Revenue multiple | 0.62x – 1.0x /0.8x | 0.3x – 0.7x / 0.6x |
| | | | | Revenue | $12,574 – $24,857 / $17,785 | $15,528 –$30,561 / $24,780 |
| | **17,650** | 19,028 | Yield Analysis | Discount Rate | 14.6% – 23.1% / 18.5% | 19.8% – 21.3% / 20.6% |
| Secured second lien debt | **45,110** | 87,360(B) | TEV | EBITDA multiple | 5.9x – 6.9x / 6.6x | 3.3x – 6.8x / 6.2x |
| | | | | EBITDA | $4,156 – $6,059 / $5,258 | $2,683 – $8,795 / $6,827 |
| | | | | Revenue multiple | 0.8x – 0.8x / 0.8x | 0.9x – 0.9x / 0.9x |
| | | | | Revenue | $16,717 – $16,717 / $16,717 | $21,439 – $21,439 / $21,439 |
| | **30,183** | 9,979 | Yield Analysis | Discount Rate | 7.3% – 11.4% / 9.5% | 19.4% – 20.9% / 19.5% |
| Preferred equity(C) | **195,377** | 167,150 | TEV | EBITDA multiple | 5.0x – 8.6x / 7.3x | 3.3x – 8.3x / 6.0x |
| | | | | EBITDA | $2,382– $20,691 / $7,183 | $1,298 – $14,085 / $5,344 |
| | | | | Revenue multiple | 0.6x – 1.0x / 0.7x | 0.3x – 0.9x / 0.7x |
| | | | | Revenue | $12,574 – $24,857 / $20,103 | $15,528 – $30,561 / $25,303 |
| Common equity/equivalents(D)(E) | **22,011** | 28,608 | TEV | EBITDA multiple | 5.5x – 8.1x / 7.0x | 4.9x – 6.2x / 5.6x |
| | | | | EBITDA | $1,303 – $17,310 / $11,459 | $1,298 – $5,842 / $2,491 |
| | | | | Revenue multiple | 0.8x – 0.8x / 0.8x | 0.3x – 0.9x / 0.3x |
| | | | | Revenue | $16,717 – $16,717 / $16,717 | $15,528 – $21,439 / $15,543 |
| **Total** | **$ 623,771** | $ 598,953 | | | | |

(A) Fair value as of March 31, 2019 includes two proprietary debt investments for a combined $14.2 million, which were valued at the expected payoff amount as the unobservable input. Fair value as of March 31, 2018 includes two new proprietary debt investments for a combined $14.5 million, which were valued at cost using the transaction price as the unobservable input, and one proprietary debt investment for $10.0 million, which was valued at the expected payoff amount as the unobservable input.

(B) Fair value as of March 31, 2018 includes one proprietary debt investment for $13.0 million, which was valued at the expected payoff amount as the unobservable input.

(C) Fair value as of March 31, 2019 includes two proprietary equity investments for a combined $6.8 million, which were valued at the expected payoff amount as the unobservable input. Fair value as of March 31, 2018 includes one proprietary equity investment for $3.4 million, which was valued at the expected payoff amount as the unobservable input.

(D) Fair value as of March 31, 2019 includes two proprietary equity investments for a combined $2.6 million, which were valued at the expected payoff amount as the unobservable input. Fair value as of March 31, 2018 includes two proprietary equity investments for a combined $17.6 million, which were valued at the expected payoff amount as the unobservable input.

(E) Fair value as of both March 31, 2019 and March 31, 2018 excludes our investment in Funko with a fair value of $0.4 million and $0.2 million, respectively, which was valued using Level 2 inputs.

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

Generally, an increase/(decrease) in discount rates or a (decrease)/increase in EBITDA or EBITDA multiples (or revenue or revenue multiples) may result in a (decrease)/increase in the fair value of certain of our investments.

*Changes in Level 3 Fair Value Measurements of Investments*

The following tables provide our portfolio's changes in fair value, broken out by security type, during the years ended March 31, 2019 and 2018 for all investments for which we determine fair value using unobservable (Level 3) inputs.

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

| | Secured First Lien Debt | Secured Second Lien Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Year ended March 31, 2019:** | | | | | |
| Fair value as of March 31, 2018 | **$305,856** | **$ 97,339** | **$ 167,150** | **$ 28,608** | **$ 598,953** |
| Total gain (loss): | | | | | |
| Net realized gain (loss)(A) | (10,000) | (10,000) | 68,748 | 18,523 | 67,271 |
| Net unrealized appreciation (depreciation)(B) | (13,325) | (13,416) | 83,923 | 13,528 | 70,710 |
| Reversal of previously recorded (appreciation) depreciation upon realization(B) | 8,896 | 10,000 | (49,610) | (20,061) | (50,775) |
| New investments, repayments and settlements(C): | | | | | |
| Issuances / originations | 82,276 | 14,070 | 15,710 | — | 112,056 |
| Settlements / repayments | (37,613) | (27,700) | — | — | (65,313) |
| Sales | — | — | (90,544) | (18,587) | (109,131) |
| Transfers(D) | (5,000) | 5,000 | — | — | — |
| **Fair value as of March 31, 2019** | **$331,090** | **$ 75,293** | **$ 195,377** | **$ 22,011** | **$ 623,771** |

| | Secured First Lien Debt | Secured Second Lien Debt | Preferred Equity | Common Equity/ Equivalents | Total |
|---|---|---|---|---|---|
| **Year ended March 31, 2018:** | | | | | |
| Fair value as of March 31, 2017 | **$268,150** | **$ 95,040** | **$ 113,515** | **$ 21,441** | **$ 498,146** |
| Total gain (loss): | | | | | |
| Net realized gain(A) | — | — | 982 | — | 982 |
| Net unrealized appreciation (depreciation)(B) | (5,640) | (8,453) | 42,610 | 7,195 | 35,712 |
| Reversal of previously recorded (appreciation) depreciation upon realization(B) | 1,881 | (1,670) | 1,102 | 868 | 2,181 |
| New investments, repayments and settlements(C): | | | | | |
| Issuances / originations | 91,932 | 27,383 | 22,216 | — | 141,531 |
| Settlements / repayments | (42,150) | (23,278) | — | — | (65,428) |
| Sales | — | — | (13,116) | (896) | (14,012) |
| Transfers(D) | (8,317) | 8,317 | (159) | — | (159) |
| **Fair value as of March 31, 2018** | **$305,856** | **$ 97,339** | **$ 167,150** | **$ 28,608** | **$ 598,953** |

(A) Included in net realized gain (loss) on investments on our accompanying *Consolidated Statements of Operations* for the respective years ended March 31, 2019 and 2018.

(B) Included in net unrealized appreciation (depreciation) of investments on our accompanying *Consolidated Statements of Operations* for the respective years ended March 31, 2019 and 2018.

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

(D) 2019: Transfers represents $5.0 million of secured first lien debt of Galaxy Tool Holding Corporation, which was converted into secured second lien debt during the three months ended December 31, 2018.

2018: Transfers represent $8.3 million of secured first lien debt of ADC, which was converted into secured second lien debt during the three months ended December 31, 2017 and $0.2 million of preferred equity of Funko, which was transferred from Level 3 to Level 2 during the three months ended December 31, 2017 as a result of the initial public offering of Funko, Inc. (our units in Funko can be converted into shares of Funko, Inc. after the expiration of the lock-up period in May 2018 and certain other restrictions are met).

*Investment Activity*

During the fiscal year ended March 31, 2019, the following significant transactions occurred:

- In April 2018, we invested $29.2 million in Bassett Creek Restoration, Inc. (d/b/a J.R. Johnson, LLC) ("Bassett Creek") through a combination of secured first lien debt and preferred equity. Bassett Creek, headquartered in Portland, Oregon, is a leading provider of commercial restoration and renovation services to the Oregon and Southwest Washington region.
- In June 2018, we sold our investment in Drew Foam Companies, Inc., which resulted in dividend and success fee income of $0.2 million and a realized gain of $13.8 million. In connection with the sale, we received net cash proceeds of $27.3 million, including the repayment of our debt investment of $9.9 million at par.
- In July 2018, we exited our investment in NDLI, Inc., which resulted in a realized loss of $3.6 million.
- In October 2018, we invested an additional $15.0 million of secured first lien debt into J.R. Hobbs Co. – Atlanta, LLC ("J.R. Hobbs"), which together with our existing $21.0 million secured first lien term loan resulted in a new $36.0 million secured first lien term loan due in October 2023.
- In October 2018, we exited our equity investment in Country Club Enterprises, LLC, which resulted in a realized loss of $7.7 million. As part of this transaction, we received success fee income of $1.0 million, reduced our existing guaranty to $1.0 million, and amended our existing $4.0 million secured second lien term loan to have a stated interest rate of the London Interbank Offered Rate ("LIBOR") + 8.0% and mature in February 2022.
- In November 2018, we sold our investment in Logo, which resulted in success fee income of $0.2 million and a realized gain of $13.0 million. In connection with the sale, we received net cash proceeds of $22.7 million, including the repayment of our debt investment of $9.2 million at par.
- In November 2018, we invested $28.6 million in Educators Resource, Inc. ("Educators Resource") through a combination of secured first lien debt and preferred equity. Educators Resource, headquartered in Semmes, Alabama, is a leading e-commerce wholesale distributor of supplemental teaching materials.
- In December 2018, we sold our investment in Cambridge Sound Management, Inc., which resulted in success fee income of $0.4 million, dividend income of $0.1 million, and a realized gain of $65.7 million. In connection with the sale, we received net cash proceeds of $86.8 million, including the repayment of our debt investment of $16.0 million at par.
- In December 2018, we sold our investment in Star Seed, Inc., which resulted in success fee income of $0.5 million and a realized gain of $5.4 million. In connection with the sale, we received net cash proceeds of $12.5 million, including the repayment of our debt investment of $5.0 million at par.
- In January 2019, we restructured two of our first lien term loans to SOG with a total cost basis of $18.4 million into a new $8.4 million first lien term loan, which resulted in a realized loss of $10.0 million. The new term loan has a stated interest rate of LIBOR + 4.0% and matures in August 2022. In addition, we invested $1.0 million of preferred equity in SOG.
- In March 2019, we restructured our existing second lien term loans and delayed draw term loan to The Mountain with a total cost basis of $21.7 million into a new $11.7 million second lien term loan, which resulted in a realized loss of $10.0 million. The new term loan has a stated interest rate of LIBOR + 4.0% and matures in April 2024. In addition, we extended a new $2.9 million first lien line of credit to The Mountain, of which $2.5 million was outstanding as of March 31, 2019. The line of credit has a stated interest rate of LIBOR + 5.0% and matures in April 2020.

*Investment Concentrations*

As of March 31, 2019, our investment portfolio consisted of investments in 30 portfolio companies located in 16 states across 16 different industries with an aggregate fair value of $624.2 million. Our investments in Nth Degree, Inc., J.R. Hobbs, Brunswick Bowling Products, Inc., Counsel Press, Inc., and Pioneer Square Brands, Inc. represent our five largest portfolio investments at fair value, and collectively comprised $227.8 million, or 36.4%, of our total investment portfolio at fair value as of March 31, 2019.

The following table summarizes our investments by security type as of March 31, 2019 and 2018:

| | March 31, 2019 | | | | March 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | Fair Value | | Cost | | Fair Value | |
| Secured first lien debt | **$350,965** | **59.5%** | **$331,090** | **53.0%** | $321,303 | 54.9% | $305,856 | 51.0% |
| Secured second lien debt | **91,851** | **15.6** | **75,293** | **12.1** | 110,484 | 18.9 | 97,339 | 16.2 |
| Total debt | **442,816** | **75.1** | **406,383** | **65.1** | 431,787 | 73.8 | 403,195 | 67.2 |
| Preferred equity | **144,622** | **24.5** | **195,377** | **31.3** | 150,708 | 25.8 | 167,150 | 28.0 |
| Common equity/equivalents | **2,251** | **0.4** | **22,412** | **3.6** | 2,351 | 0.4 | 28,802 | 4.8 |
| Total equity/equivalents | **146,873** | **24.9** | **217,789** | **34.9** | 153,059 | 26.2 | 195,952 | 32.8 |
| **Total investments** | **$589,689** | **100.0%** | **$624,172** | **100.0%** | $584,846 | 100.0% | $599,147 | 100.0% |

Investments at fair value consisted of the following industry classifications as of March 31, 2019 and 2018:

| | March 31, 2019 | | March 31, 2018 | |
|---|---|---|---|---|
| | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| Diversified/Conglomerate Services | **$212,817** | **34.1%** | $136,719 | 22.8% |
| Home and Office Furnishings, Housewares, and Durable Consumer Products | **102,271** | **16.4** | 128,529 | 21.5 |
| Diversified/Conglomerate Manufacturing | **41,235** | **6.6** | 29,942 | 5.0 |
| Leisure, Amusement, Motion Pictures, Entertainment | **40,912** | **6.6** | 43,048 | 7.2 |
| Personal and Non-Durable Consumer Products (Manufacturing Only) | **40,130** | **6.4** | 42,836 | 7.1 |
| Healthcare, Education, and Childcare | **30,022** | **4.8** | — | — |
| Machinery (Non-agriculture, Non-construction, Non-electronic) | **28,905** | **4.6** | 21,915 | 3.7 |
| Containers, Packaging, and Glass | **22,009** | **3.5** | 21,387 | 3.6 |
| Farming and Agriculture | **19,197** | **3.1** | 21,483 | 3.6 |
| Chemicals, Plastics, and Rubber | **16,641** | **2.7** | 55,740 | 9.3 |
| Cargo Transport | **15,490** | **2.5** | 15,816 | 2.6 |
| Telecommunications | **15,225** | **2.4** | 14,000 | 2.3 |
| Aerospace and Defense | **13,309** | **2.1** | 12,457 | 2.1 |
| Beverage, Food, and Tobacco | **11,937** | **1.9** | 11,605 | 1.9 |
| Automobile | **9,716** | **1.6** | 13,830 | 2.3 |
| Textiles and Leather | — | — | 19,407 | 3.2 |
| Other < 2.0% | **4,356** | **0.7** | 10,433 | 1.8 |
| **Total investments** | **$624,172** | **100.0%** | $599,147 | 100.0% |

Investments at fair value were included in the following geographic regions of the U.S. as of March 31, 2019 and 2018:

| | March 31, 2019 | | March 31, 2018 | |
|---|---|---|---|---|
| Location | Fair Value | Percentage of Total Investments | Fair Value | Percentage of Total Investments |
| South | **$262,386** | **42.0%** | $221,725 | 37.0% |
| West | **177,599** | **28.5** | 133,774 | 22.3 |
| Northeast | **129,430** | **20.7** | 188,911 | 31.5 |
| Midwest | **54,757** | **8.8** | 54,737 | 9.2 |
| **Total investments** | **$624,172** | **100.0%** | $599,147 | 100.0% |

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

*Investment Principal Repayments*

The following table summarizes the contractual principal repayment and maturity of our investment portfolio for the next five fiscal years and thereafter, assuming no voluntary prepayments, as of March 31, 2019:

| | | Amount |
|---|---|---|
| For the fiscal years ending March 31: | 2020 | $ 98,394 |
| | 2021 | 69,061 |
| | 2022 | 55,621 |
| | 2023 | 97,489 |
| | 2024 | 110,618 |
| | Thereafter | 11,700 |
| | **Total contractual repayments** | **$442,883** |
| | Adjustments to cost basis of debt investments | (67) |
| | Investments in equity securities | 146,873 |
| | **Total cost basis of investments held as of March 31, 2019:** | **$589,689** |

*Receivables from Portfolio Companies*

Receivables from portfolio companies represent non-recurring costs that we incurred on behalf of portfolio companies. Such receivables, net of any allowance for uncollectible receivables, are included in Other assets, net on our accompanying *Consolidated Statements of Assets and Liabilities*. We generally maintain an allowance for uncollectible receivables from portfolio companies when the receivable balance becomes 90 days or more past due or if it is determined, based upon management's judgment, that the portfolio company is unable to pay its obligations. We write-off accounts receivable when we have exhausted collection efforts and have deemed the receivables uncollectible. As of March 31, 2019 and 2018, we had gross receivables from portfolio companies of $1.3 million and $0.7 million, respectively. The allowance for uncollectible receivables was $0.8 million and $0.2 million as of March 31, 2019 and 2018, respectively.

## NOTE 4. RELATED PARTY TRANSACTIONS

*Transactions with the Adviser*

We pay the Adviser certain fees as compensation for its services, such fees consisting of a base management fee and an incentive fee, as provided for in the Advisory Agreement, and a loan servicing fee for the Adviser's role as servicer pursuant to the Credit Facility, each as described below. On July 10, 2018, our Board of Directors, including a majority of the directors who are not parties to the Advisory Agreement or interested persons of either party, approved the annual renewal of the Advisory Agreement through August 31, 2019.

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

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

| | Year Ended March 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Average total assets subject to base management fee(A) | **$637,600** | $539,800 | $496,250 |
| Multiplied by annual base management fee of 2.0% | **2.0%** | 2.0% | 2.0% |
| **Base management fee**(B) | **12,752** | 10,796 | 9,925 |
| Credits to fees from Adviser — other(B) | **(5,509)** | (3,674) | (3,506) |
| **Net base management fee** | **$ 7,243** | $ 7,122 | $ 6,419 |
| **Loan servicing fee**(B) | **6,827** | 6,277 | 6,606 |
| Credits to base management fee — loan servicing fee(B) | **(6,827)** | (6,277) | (6,606) |
| **Net loan servicing fee** | **$ —** | $ — | $ — |
| **Incentive fee – income-based** | **$ 4,419** | $ 6,249 | $ 4,750 |
| **Incentive fee – capital gains-based**(C) | **17,835** | 4,399 | — |
| **Total incentive fee**(B) | **22,254** | 10,648 | 4,750 |
| Credits to fees from Adviser — other(B) | **—** | — | — |
| **Net total incentive fee** | **$ 22,254** | $ 10,648 | $ 4,750 |

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

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

(C) The capital gains-based incentive fee is not yet contractually due under the terms of the Advisory Agreement.

**Base Management Fee**

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

Additionally, pursuant to the requirements of the 1940 Act, the Adviser makes available significant managerial assistance to our portfolio companies. The Adviser may also provide other services to our portfolio companies under certain agreements and may receive fees for services other than managerial assistance. Such services may include: (i) assistance obtaining, sourcing or structuring credit facilities, long term loans or additional equity from unaffiliated third parties; (ii) negotiating important contractual financial relationships; (iii) consulting services regarding restructuring of the portfolio company and financial modeling as it relates to raising additional debt and equity capital from unaffiliated third parties; and (iv) primary role in interviewing, vetting, and negotiating employment contracts with candidates in connection with adding and retaining key portfolio company management team members. The Adviser non-contractually, unconditionally, and irrevocably credits 100% of any fees received for such services against the base management fee that we would otherwise be required to pay to the Adviser; however, pursuant to the terms of the Advisory Agreement, a small percentage of certain of such fees, totaling $0.2 million, $0.2 million, and $0.3 million for the years ended March 31, 2019, 2018, and 2017, respectively, was retained by the Adviser in the form of reimbursement, at cost, for tasks completed by personnel of the Adviser, primarily related to the valuation of portfolio companies.

**Loan Servicing Fee**

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

**Incentive Fee**

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

The income-based incentive fee rewards the Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets, which we define as total assets less indebtedness and before taking into account any incentive fees payable or contractually due but not payable during the period, at the end of the immediately preceding calendar quarter, adjusted appropriately for any share issuances or repurchases during the period (the “Hurdle Rate”). The income-based incentive fee with respect to our pre-incentive fee net investment income is payable quarterly to the Adviser and is computed as follows:

- No incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the Hurdle Rate;
- 100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the Hurdle Rate but is less than 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter; and
- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% of our net assets, adjusted appropriately for any share issuances or repurchases during the period, in any calendar quarter.

The second part of the incentive fee is a capital gains-based incentive fee that is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Advisory Agreement, as of the termination date), and equals 20.0% of our realized capital gains, less any realized capital losses and unrealized depreciation, calculated as of the end of the preceding calendar year. The capital gains-based incentive fee payable to the Adviser is calculated based on (i) cumulative aggregate realized capital gains since our inception, less (ii) cumulative aggregate realized capital losses since our inception, less (iii) the entire portfolio’s aggregate unrealized capital depreciation, if any, as of the date of the calculation. If this number is positive at the applicable calculation date, then the capital gains-based incentive fee for such year equals 20.0% of such amount, less the aggregate amount of any capital gains-based incentive fees paid in respect of our portfolio in all prior years. For calculation purposes, cumulative aggregate realized capital gains, if any, equals the sum of the excess between the net sales price of each investment, when sold, and the original cost of such investment since our inception. Cumulative aggregate realized capital losses equals the sum of the deficit between the net sales price of each investment, when sold, and the original cost of such investment since our inception. The entire portfolio’s aggregate unrealized capital depreciation, if any, equals the sum of the deficit between the fair value of each investment security as of the applicable calculation date and the original cost of such investment security. We have not incurred capital gains-based incentive fees from inception through March 31, 2019, as aggregate unrealized capital depreciation has exceeded cumulative realized capital gains net of cumulative realized capital losses.

In accordance with GAAP, accrual of the capital gains-based incentive fee is determined as if our investments had been liquidated at their fair values as of the end of the reporting period. Therefore, GAAP requires that the capital gains-based incentive fee accrual consider the aggregate unrealized capital appreciation in the calculation, as a capital gains-based incentive fee would be payable if such unrealized capital appreciation were realized. There can be no assurance that any such unrealized capital appreciation will be realized in the future. Accordingly, a GAAP accrual is calculated at the end of the reporting period based on (i) cumulative aggregate realized capital gains since our inception, plus (ii) the entire portfolio’s aggregate unrealized capital appreciation, if any, less (iii) cumulative aggregate realized capital losses since our inception, less (iv) the entire portfolio’s aggregate unrealized capital depreciation, if any. If such amount is positive at the end of a reporting period, a capital gains-based incentive fee equal to 20.0% of such amount, less the aggregate amount of actual capital gains-based incentive fees paid in all prior years, is recorded, regardless of whether such amount is contractually due under the terms of the Advisory Agreement. If such amount is negative, then there is no accrual for such period. During year ended March 31, 2019, we recorded capital gains-based incentive fees of $17.8 million, which were not contractually due under the terms of the Advisory Agreement. During the year ended March 31, 2018, we recorded capital gains-based incentive fees of $4.4 million, which were not contractually due under the terms of the Advisory Agreement.

*Transactions with the Administrator*

We pay the Administrator pursuant to the Administration Agreement for our allocable portion of the Administrator’s expenses incurred while performing services to us, which are primarily rent and salaries and benefits expenses of the Administrator’s employees, including, our chief financial officer and treasurer, chief valuation officer, chief compliance officer, and general counsel and secretary (who also serves as the Administrator’s president, general counsel and secretary), and their respective staffs. Two of our executive officers, David Gladstone (our chairman and chief executive officer) and Terry Lee Brubaker (our vice chairman and chief operating officer) serve as members of the board of managers and executive officers of the Administrator, which is 100% indirectly owned and controlled by Mr. Gladstone.

Our allocable portion of the Administrator's expenses is generally derived by multiplying the Administrator's total expenses by the approximate percentage of time during the current quarter the Administrator's employees performed services for us in relation to their time spent performing services for all companies serviced by the Administrator. On July 10, 2018, our Board of Directors, including a majority of the directors who are not parties to the Administration Agreement or interested persons of either party, approved the annual renewal of the Administration Agreement through August 31, 2019.

*Other Transactions*

Gladstone Securities, LLC ("Gladstone Securities"), which is 100% indirectly owned and controlled by Mr. Gladstone, our chairman and chief executive officer, is a privately-held broker-dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation. From time to time, Gladstone Securities provides other services, such as investment banking and due diligence services, to certain of our portfolio companies, for which it receives a fee. Any such fees paid by portfolio companies to Gladstone Securities do not impact the fees we pay to the Adviser or the non-contractual, unconditional, and irrevocable credits against the base management fee. The fees received by Gladstone Securities from portfolio companies totaled $0.7 million, $0.6 million, and $0.5 million during the years ended March 31, 2019, 2018, and 2017, respectively.

*Related Party Fees Due*

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

| | As of March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Base management and loan servicing fee due to Adviser, net of credits | **$ 1,143** | $ 540 |
| Incentive fee due to Adviser(A) | **23,548** | 6,122 |
| Other due to Adviser | **33** | 9 |
| **Total fees due to Adviser** | **$24,724** | $6,671 |
| **Fee due to Administrator** | **$ 344** | $ 317 |
| **Total related party fees due** | **$25,068** | $6,988 |

(A) Includes a capital gains-based incentive fee of $22.2 million and $4.4 million as of March 31, 2019 and 2018, respectively, recorded in accordance with GAAP requirements and which is not contractually due under the terms of the Advisory Agreement. Refer to Note 4 — *Related Party Transactions—Transactions with the Adviser—Incentive Fee* for additional information.

Net expenses receivable from Gladstone Capital Corporation, one of our affiliated funds, for reimbursement purposes, which includes certain co-investment expenses, totaled $12 and $16 as of March 31, 2019 and 2018, respectively. These amounts are generally settled in the quarter subsequent to being incurred and have been included in Other Assets, net on the accompanying *Consolidated Statements of Assets and Liabilities* as of March 31, 2019 and 2018, respectively.

**NOTE 5. BORROWINGS**

*Revolving Line of Credit*

On August 22, 2018, we, through our wholly-owned subsidiary, Business Investment, entered into Amendment No. 4 to the Fifth Amended and Restated Credit Agreement, originally entered into on April 30, 2013 and as previously amended, with KeyBank National Association ("KeyBank") as administrative agent, lead arranger, managing agent and lender, the Adviser, as servicer, and certain other lenders party thereto. The revolving period was extended to August 22, 2021, and if not renewed or extended by such date, all principal and interest will be due and payable on August 22, 2023 (two years after the revolving period end date). As of March 31, 2019, the Credit Facility provided two one-year extension options that may be exercised on or before the first and second anniversary of the August 22, 2018 amendment date, subject to approval by all lenders. Additionally, the Credit Facility commitment amount was increased from $165.0 million to $200.0 million and, subject to certain terms and conditions, can be expanded to a total facility amount of $300.0 million through additional commitments from existing or new lenders.

The amendment also reduced the Company's minimum asset coverage with respect to senior securities representing indebtedness from 200% to 150% (or such percentage as may be set forth in Section 18 of the 1940 Act, as modified by Section 61 of the 1940 Act).

Advances under the Credit Facility generally bear interest at30-day LIBOR plus 2.85% per annum until August 21, 2021, with the margin then increasing to 3.10% for the period from August 22, 2021 to August 21, 2022, and increasing further to 3.35% thereafter. The Credit Facility has an unused commitment fee on the daily unused commitment amount of 0.50% per annum if the average unused commitment amount for the period is less than or equal to 50% of the total commitment amount, 0.75% per annum if the average unused commitment amount for the period is greater than 50% but less than or equal to 65% of the total commitment amount, and 1.00% per annum if the average unused commitment amount for the period is greater than 65% of the total commitment amount.

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

| | As of March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Commitment amount | **$200,000** | $165,000 |
| Borrowings outstanding at cost | **53,000** | 107,000 |
| Availability(A) | **147,000** | 58,000 |

| | For the Years Ended March 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Weighted-average borrowings outstanding | **$97,866** | $67,772 | $67,364 |
| Effective interest rate(B) | **5.91%** | 5.42% | 4.72% |
| Commitment (unused) fees incurred | **$ 656** | $ 582 | $ 598 |

(A) Availability is subject to various constraints, characteristics, and applicable advance rates based on collateral quality under the Credit Facility, which equated to an adjusted availability of $137.5 million and $53.8 million as of March 31, 2019 and 2018, respectively.

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

Interest is payable monthly during the term of the Credit Facility. Available borrowings are subject to various constraints and applicable advance rates, which are generally based on the size, characteristics, and quality of the collateral pledged by Business Investment. The Credit Facility also requires that any interest and principal payments on pledged loans be remitted directly by the borrower into a lockbox account with KeyBank. KeyBank is also the trustee of the account and generally remits the collected funds to us once a month. Amounts collected in the lockbox account with KeyBank are presented as Due from administrative agent on the accompanying *Consolidated Statements of Assets and Liabilities* as of March 31, 2019 and 2018, respectively.

Among other things, the Credit Facility contains a performance guaranty that requires us to maintain (i) a minimum net worth (defined in the Credit Facility to include our mandatory redeemable term preferred stock) of the greater of $210.0 million or $210.0 million plus 50% of all equity and subordinated debt raised minus 50% of any equity or subordinated debt redeemed or retired after November 16, 2016, which equated to $218.7 million as of March 31, 2019, (ii) asset coverage with respect to senior securities representing indebtedness of at least 150% (or such percentage as may be set forth in Section 18 of the 1940 Act, as modified by Section 61 of the 1940 Act); and (iii) our status as a BDC under the 1940 Act and as a RIC under the Code. As of March 31, 2019, and as defined in the performance guaranty of the Credit Facility, we had a net worth of $533.9 million, asset coverage on our senior securities representing indebtedness of 997.6%, calculated in compliance with the requirements of Sections 18 and 61 of the 1940 Act, and an active status as a BDC and RIC. As of March 31, 2019, we were in compliance with all covenants under the Credit Facility.

In July 2013, pursuant to the terms of the then effective revolving line of credit, we entered into an interest rate cap agreement with KeyBank effective October 2013 for a notional amount of $45.0 million. The interest rate cap agreement expired in April 2016. Prior to its expiration in April 2016, the agreement effectively limited the interest rate on a portion of our borrowings under the then effective revolving line of credit. We incurred a premium fee of $75 in conjunction with this agreement, which was recorded in Net realized loss on other on our accompanying *Consolidated Statements of Operations* during the year ended March 31, 2017.

*Secured Borrowing*

In August 2012, we entered into a participation agreement with a third-party related to $5.0 million of our secured second lien term debt investment in Ginsey Home Solutions, Inc. ("Ginsey"). In May 2014, we amended the agreement with the third-party to include an additional $0.1 million. ASC Topic 860, "*Transfers and Servicing*" requires us to treat the participation as a financing-type transaction. Specifically, the third-party has a senior claim to our remaining investment in the event of default by Ginsey which, in part, resulted in the loan participation bearing a rate of interest lower than the contractual rate established at origination. Therefore, our accompanying *Consolidated Statements of Assets and Liabilities* reflect the entire secured second lien term debt investment in Ginsey and a corresponding $5.1 million secured borrowing liability. The secured borrowing has a stated fixed interest rate of 7.0% and a maturity date of January 3, 2021.

*Fair Value*

We elected to apply the fair value option of ASC Topic 825, "*Financial Instruments*," to the Credit Facility, which was consistent with our application of ASC 820 to our investments. Generally, the fair value of the Credit Facility is determined using a yield analysis, which includes a DCF calculation and also takes into account the assumptions the Valuation Team believes market participants would use, including the estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date.

At March 31, 2019, the discount rate used to determine the fair value of the Credit Facility was 30-day LIBOR, plus 2.85% per annum, plus an unused commitment fee of 1.0%. At March 31, 2018, the discount rate used to determine the fair value of the Credit Facility was 30-day LIBOR, plus 2.85% per annum, plus an unused commitment fee of 0.5%. Generally, an increase or decrease in the discount rate used in the DCF calculation may result in a corresponding decrease or increase, respectively, in the fair value of the Credit Facility. At each of March 31, 2019 and 2018, the Credit Facility was valued using Level 3 inputs and any changes in its fair value are recorded in Net unrealized depreciation of other on our accompanying *Consolidated Statements of Operations*.

The following tables provide relevant information and disclosures about the Credit Facility as of and for the years ended March 31, 2019 and 2018, as required by ASC 820:

| | Level 3 – Borrowings Recurring Fair Value Measurements Reported in *Consolidated Statements of Assets and Liabilities* Using Significant Unobservable Inputs (Level 3) As of March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Credit Facility | **$ 53,000** | $ 107,500 |

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

| | **Credit Facility** |
|---|---|
| **Year ended March 31, 2019:** | |
| Fair value at March 31, 2018 | $ 107,500 |
| Borrowings | 205,500 |
| Repayments | (259,500) |
| Unrealized depreciation | (500) |
| **Fair value at March 31, 2019** | **$ 53,000** |
| **Year ended March 31, 2018:** | |
| Fair value at March 31, 2017 | $ 69,700 |
| Borrowings | 132,100 |
| Repayments | (94,800) |
| Unrealized appreciation | 500 |
| **Fair value at March 31, 2018** | **$ 107,500** |

The fair value of the collateral under the Credit Facility was $536.3 million and $504.0 million as of March 31, 2019 and 2018, respectively.

**NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK**

In August 2018, we completed a public offering of 2,990,000 shares of 6.375% Series E Cumulative Term Preferred Stock (our "Series E Term Preferred Stock" or "Series E") at a public offering price of $25.00 per share. Gross proceeds totaled $74.8 million and net proceeds, after deducting underwriting discounts and offering costs borne by us, were $72.1 million. Total underwriting discounts and offering costs related to this offering were $2.7 million, which have been recorded as discounts to the liquidation value on our accompanying *Consolidated Statements of Assets and Liabilities* and are being amortized over the period ending August 31, 2025, the mandatory redemption date.

The shares of Series E Term Preferred Stock are traded under the ticker symbol "GAINL" on the Nasdaq Global Select Market ("Nasdaq"). Our Series E Term Preferred Stock is not convertible into our common stock or any other security and provides for a fixed dividend equal to 6.375% per year, payable monthly. We are required to redeem all shares of our outstanding Series E Term Preferred Stock on August 31, 2025, for cash at a redemption price equal to $25.00 per share, plus an amount equal to accumulated but unpaid dividends, if any, to, but excluding, the date of redemption. In addition, two other potential mandatory redemption triggers are as follows: (1) upon the occurrence of certain events that would constitute a change in control of us, we would be required to redeem all of our outstanding Series E Term Preferred Stock, and (2) if we fail to maintain asset coverage as required by Sections 18 and 61 of the 1940 Act (which is currently 150%) and are unable to correct such failure within a specific amount of time, we are required to redeem a portion of our outstanding Series E Term Preferred Stock or otherwise cure the asset coverage redemption trigger (we may also redeem additional securities to cause asset coverage to be up to 200%). We may also voluntarily redeem all or a portion of our Series E Term Preferred Stock at our sole option at the redemption price at any time on or after August 31, 2020.

In August 2018, we used the proceeds from the issuance of our Series E Term Preferred Stock, along with borrowings under the Credit Facility, to voluntarily redeem all outstanding shares of our 6.750% Series B Cumulative Term Preferred Stock (our "Series B Term Preferred Stock" or "Series B") and 6.500% Series C Cumulative Term Preferred Stock (our "Series C Term Preferred Stock" or "Series C"), each of which had a liquidation preference of $25.00 per share. In connection with the voluntary redemption of our Series B Term Preferred Stock and Series C Term Preferred Stock, we incurred a loss on extinguishment of debt of $1.7 million, which was recorded in Realized loss on other in our accompanying *Consolidated Statements of Operations* and which was primarily comprised of unamortized deferred issuance costs at the time of redemption.

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

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

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

The following tables summarize our Series B Term Preferred Stock, our Series C Term Preferred Stock, our Series D Term Preferred Stock, and our Series E Term Preferred Stock outstanding as of March 31, 2019 and March 31, 2018:

**As of March 31, 2019:**

| Class of Term Preferred Stock | Ticker Symbol | Date Issued | Mandatory Redemption Date(A) | Interest Rate | Shares Outstanding | Liquidation Preference per Share | Total Liquidation Preference |
|---|---|---|---|---|---|---|---|
| Series D | GAINM | September 26, 2016 | September 30, 2023 | 6.250% | 2,300,000 | 25.00 | **57,500** |
| Series E | GAINL | August 22, 2018 | August 31, 2025 | 6.375% | 2,990,000 | 25.00 | **74,750** |
| **Term preferred stock, gross(B)** | | | | | **5,290,000** | **$25.00** | **$132,250** |
| Less: Discounts | | | | | | | **(3,768)** |
| **Term preferred stock, net(C)** | | | | | | | **$128,482** |

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As of March 31, 2018:

| Class of Term Preferred Stock | Ticker Symbol | Date Issued | Mandatory Redemption Date(A) | Interest Rate | Shares Outstanding | Liquidation Preference per Share | Total Liquidation Preference |
|---|---|---|---|---|---|---|---|
| Series B | GAINO | November 13, 2014 | December 31, 2021 | 6.75% | 1,656,000 | $25.00 | **$41,400** |
| Series C | GAINN | May 12, 2015 | May 31, 2022 | 6.50% | 1,610,000 | 25.00 | **40,250** |
| Series D | GAINM | September 26, 2016 | September 30, 2023 | 6.25% | 2,300,000 | 25.00 | **57,500** |
| **Term preferred stock, gross(B)** | | | | | **5,566,000** | **$25.00** | **$139,150** |
| Less: Discounts | | | | | | | **(3,535)** |
| **Term preferred stock, net(C)** | | | | | | | **$135,615** |

(A) We redeemed all outstanding shares of our Series B Term Preferred Stock and Series C Term Preferred Stock on August 31, 2018. Our Series D Term Preferred Stock is currently redeemable at our option and our Series E Term Preferred Stock is redeemable at our option any time after August 31, 2020.

(B) As of March 31, 2019 and 2018, asset coverage on our senior securities that are stock, calculated pursuant to Sections 18 and 61 of the 1940 Act, was 309.1% and 237.3%, respectively.

(C) Reflected as a line item on our accompanying Consolidated Statement of Assets and Liabilities pursuant to the adoption of Accounting Standard Update 2015-03, "Simplifying the Presentation of Debt Issuance Costs."

The following tables summarize dividends declared by our Board of Directors and paid by us on each of our series of mandatorily redeemable preferred stock during the years ended March 31, 2019, 2018, and 2017:

For the Year Ended March 31, 2019:

| Declaration Date | Record Date | Payment Date | Dividend per Share of Series B Term Preferred Stock(A) | Dividend per Share of Series C Term Preferred Stock(A) | Dividend per Share of Series D Term Preferred Stock | Dividend per Share of Series E Term Preferred Stock(B) |
|---|---|---|---|---|---|---|
| April 10, 2018 | April 20, 2018 | April 30, 2018 | $ 0.140625 | $ 0.135417 | $0.13020833 | $ — |
| April 10, 2018 | May 22, 2018 | May 31, 2018 | 0.140625 | 0.135417 | 0.13020833 | — |
| April 10, 2018 | June 20, 2018 | June 29, 2018 | 0.140625 | 0.135417 | 0.13020833 | — |
| July 10, 2018 | July 20, 2018 | July 31, 2018 | 0.140625 | 0.135417 | 0.13020833 | — |
| July 10, 2018 | August 21, 2018 | August 31, 2018 | 0.140625 | 0.135417 | 0.13020833 | — |
| July 10, 2018 | September 19, 2018 | September 28, 2018 | — | — | 0.13020833 | — |
| September 6, 2018 | September 19, 2018 | September 28, 2018 | — | — | — | 0.17265625(C) |
| October 9, 2018 | October 19, 2018 | October 31, 2018 | — | — | 0.13020833 | 0.13281250 |
| October 9, 2018 | November 20, 2018 | November 30, 2018 | — | — | 0.13020833 | 0.13281250 |
| October 9, 2018 | December 20, 2018 | December 31, 2018 | — | — | 0.13020833 | 0.13281250 |
| January 8, 2019 | January 18, 2019 | January 31, 2019 | — | — | 0.13020833 | 0.13281250 |
| January 8, 2019 | February 20, 2019 | February 28, 2019 | — | — | 0.13020833 | 0.13281250 |
| January 8, 2019 | March 20, 2019 | March 29, 2019 | — | — | 0.13020833 | 0.13281250 |
| | | **Total** | **$ 0.703125** | **$ 0.677085** | **$1.56249996** | **$0.96953125** |

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**For the Year Ended March 31, 2018:**

| Declaration Date | Record Date | Payment Date | Dividend per Share of Series B Term Preferred Stock | Dividend per Share of Series C Term Preferred Stock | Dividend per Share of Series D Term Preferred Stock |
|---|---|---|---|---|---|
| April 11, 2017 | April 21, 2017 | April 28, 2017 | $ 0.140625 | $ 0.135417 | $0.13020833 |
| April 11, 2017 | May 19, 2017 | May 31, 2017 | 0.140625 | 0.135417 | 0.13020833 |
| April 11, 2017 | June 21, 2017 | June 30, 2017 | 0.140625 | 0.135417 | 0.13020833 |
| July 11, 2017 | July 21, 2017 | July 31, 2017 | 0.140625 | 0.135417 | 0.13020833 |
| July 11, 2017 | August 21, 2017 | August 31, 2017 | 0.140625 | 0.135417 | 0.13020833 |
| July 11, 2017 | September 20, 2017 | September 29, 2017 | 0.140625 | 0.135417 | 0.13020833 |
| October 10, 2017 | October 20, 2017 | October 31, 2017 | 0.140625 | 0.135417 | 0.13020833 |
| October 10, 2017 | November 20, 2017 | November 30, 2017 | 0.140625 | 0.135417 | 0.13020833 |
| October 10, 2017 | December 19, 2017 | December 29, 2017 | 0.140625 | 0.135417 | 0.13020833 |
| January 9, 2018 | January 22, 2018 | January 31, 2018 | 0.140625 | 0.135417 | 0.13020833 |
| January 9, 2018 | February 16, 2018 | February 28, 2018 | 0.140625 | 0.135417 | 0.13020833 |
| January 9, 2018 | March 20, 2018 | March 30, 2018 | 0.140625 | 0.135417 | 0.13020833 |
| | | **Total** | **$ 1.687500** | **$ 1.625004** | **$1.56249996** |

**For the Year Ended March 31, 2017**:

| Declaration Date | Record Date | Payment Date | Dividend per Series A Term Preferred Share(D) | Dividend per Series B Term Preferred Share | Dividend per Series C Term Preferred Share | Dividend per Series D Term Preferred Share(E) |
|---|---|---|---|---|---|---|
| April 12, 2016 | April 22, 2016 | May 2, 2016 | $ 0.1484375 | $ 0.140625 | $ 0.135417 | $ — |
| April 12, 2016 | May 19, 2016 | May 31, 2016 | 0.1484375 | 0.140625 | 0.135417 | — |
| April 12, 2016 | June 17, 2016 | June 30, 2016 | 0.1484375 | 0.140625 | 0.135417 | — |
| July 12, 2016 | July 22, 2016 | August 2, 2016 | 0.1484375 | 0.140625 | 0.135417 | — |
| July 12, 2016 | August 22, 2016 | August 31, 2016 | 0.1484375 | 0.140625 | 0.135417 | — |
| July 12, 2016 | September 21, 2016 | September 30, 2016 | 0.1484375 | 0.140625 | 0.135417 | — |
| October 11, 2016 | October 21, 2016 | October 31, 2016 | — | 0.140625 | 0.135417 | 0.15190972(F) |
| October 11, 2016 | November 17, 2016 | November 30, 2016 | — | 0.140625 | 0.135417 | 0.13020833 |
| October 11, 2016 | December 20, 2016 | December 30, 2016 | — | 0.140625 | 0.135417 | 0.13020833 |
| January 10, 2017 | January 20, 2017 | January 31, 2017 | — | 0.140625 | 0.135417 | 0.13020833 |
| January 10, 2017 | February 16, 2017 | February 28, 2017 | — | 0.140625 | 0.135417 | 0.13020833 |
| January 10, 2017 | March 22, 2017 | March 31, 2017 | — | 0.140625 | 0.135417 | 0.13020833 |
| | | **Total** | **$ 0.8906250** | **$ 1.687500** | **$ 1.625004** | **$0.80295137** |

**(A)** We voluntarily redeemed all outstanding shares of our Series B Term Preferred Stock and Series C Term Preferred Stock on August 31, 2018.
**(B)** We issued our Series E Term Preferred Stock on August 22, 2018.
**(C)** Represents a combined dividend for the prorated month of August 2018, based upon the issuance date of our Series E Term Preferred Stock, combined with a full month of September 2018.
**(D)** We voluntarily redeemed all outstanding shares of our Series A Term Preferred Stock on September 30, 2016.
**(E)** We issued our Series D Term Preferred Stock on September 26, 2016.
**(F)** Represents a combined dividend for the prorated month of September 2016, based upon the issuance date of our Series D Term Preferred Stock, combined with a full month of October 2016.

The federal income tax characteristics of dividends paid to our preferred stockholders generally constitute ordinary income or capital gains to the extent of our current and accumulated earnings and profits and is reported after the end of the calendar year based on tax information for the full fiscal year. Estimates of tax characterization made on a quarterly basis may not be representative of the actual tax characterization of dividends for the full year. Estimates made on a quarterly basis are updated as of each interim reporting date. The tax characterization of dividends paid to our preferred stockholders during the calendar year ended December 31, 2018 was 81.2% from ordinary income and 18.8% from capital gains. The tax characterization of dividends paid to our preferred stockholders during the calendar year ended December 31, 2017 was 93.8% from ordinary income and 6.2% from capital gains.

In accordance with ASC Topic 480, "*Distinguishing Liabilities from Equity*," mandatorily redeemable financial instruments should be classified as liabilities on the balance sheet. Our mandatorily redeemable preferred stock is recorded at the liquidation preference, less discounts, on our accompanying *Consolidated Statements of Assets and Liabilities* as of March 31, 2019 and 2018. The related dividend payments to preferred stockholders are treated as dividend expense on our accompanying *Consolidated Statements of Operations* on the ex-dividend date.

The following table summarizes the fair value of each of our series of mandatorily redeemable preferred stock based on the last reported closing sale price as of March 31, 2019 and 2018, each of which we consider to be a Level 1 input within the fair value hierarchy:

| | Fair Value as of March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Series B Term Preferred Stock | $ — | $ 41,814 |
| Series C Term Preferred Stock | — | 40,862 |
| Series D Term Preferred Stock | **58,535** | 58,282 |
| Series E Term Preferred Stock | **76,395** | — |
| **Total** | **$ 134,930** | $ 140,958 |

## NOTE 7. REGISTRATION STATEMENT AND COMMON EQUITY OFFERINGS

*Registration Statement*

On June 5, 2018, we filed a registration statement on FormN-2 (File No. 333-225447), which the SEC declared effective on July 13, 2018. The registration statement permits us to issue, through one or more transactions, up to an aggregate of $300.0 million in securities, consisting of common stock, preferred stock, subscription rights, debt securities, and warrants to purchase common stock, preferred stock, or debt securities, including through concurrent, separate offerings of such securities. As of March 31, 2019, we had the ability to issue up to an additional $225.3 million in securities under the registration statement.

*Common Equity Offerings*

In February 2018, we entered into equity distribution agreements with Cantor Fitzgerald & Co. ("Cantor"), Ladenburg Thalmann & Co., Inc., and Wedbush Securities, Inc. (each a "Sales Agent"), under which we have the ability to issue and sell shares of our common stock, from time to time, through the Sales Agents, up to an aggregate offering price of $35.0 million in what is commonly referred to as an "at-the-market" ("ATM") program. As of March 31, 2019, we had remaining capacity to sell up to an additional $31.8 million of common stock under the ATM program.

During the year ended March 31, 2019, we sold 168,824 shares of our common stock under the ATM program with Cantor at a weighted-average gross price of $11.09 per share and raised approximately $1.9 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was $10.87 and resulted in total net proceeds of approximately $1.8 million. Certain of these sales were below our then-current estimated NAV per share during the sales period, with a discount of $0.002 per share, when comparing the sales price per share, after deducting commissions, to the then-current estimated NAV per share; however, the net dilutive effect (after commissions and offering costs borne by us) of these sales was $0.00 per common share as a result of the small number of shares sold at a slight discount to NAV per share and resulting rounding. In aggregate, the sales during the year ended March 31, 2019 were above our then-current estimated NAV per share.

During the year ended March 31, 2018, we sold 127,412 shares of our common stock under the ATM program with Cantor at a weighted-average gross price of $10.45 per share and raised approximately $1.3 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was $10.24 and resulted in total net proceeds of approximately $1.3 million. These sales were below our then current estimated NAV per share during the sales period, with such discounts ranging from $0.01 per share to $0.07 per share, when comparing the sales price per share, after deducting commissions, to the then current estimated NAV per share; however, the net dilutive effect (after commissions and offering costs borne by us) of these sales was $0.00 per common share as a result of the small number of shares sold at a slight discount to NAV per share and resulting rounding.

In May 2017, we completed a public offering of 2.1 million shares of our common stock at a public offering price of $9.38 per share, which was below our then current NAV of $9.95 per share. Gross proceeds totaled $19.7 million and net proceeds, after deducting underwriting discounts and commissions and offering costs borne by us, were $18.7 million, which were used to repay borrowings under the Credit Facility and for other general corporate purposes. In June 2017, the underwriters partially exercised their over-allotment option and purchased an additional 155,265 shares at the public offering price of $9.38 per share and on the same terms and conditions solely to cover over-allotments, which resulted in gross proceeds of $1.5 million and net proceeds, after deducting underwriting discounts and commissions and offering costs borne by us, of $1.4 million.

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

The following table sets forth the computation of basic and diluted Net increase in net assets resulting from operations per weighted-average common share for the years ended March 31, 2019, 2018, and 2017:

| | Year Ended March 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Numerator: net increase in net assets resulting from operations | **$ 81,590** | $ 60,687 | $ 44,763 |
| Denominator: basic and diluted weighted-average common shares | **32,807,597** | 32,268,776 | 30,270,958 |
| **Basic and diluted net increase in net assets resulting from operations per weighted-average common share** | **$ 2.49** | $ 1.88 | $ 1.48 |

## NOTE 9. DISTRIBUTIONS TO COMMON STOCKHOLDERS

To qualify to be taxed as a RIC under Subchapter M of the Code, we must generally distribute to our stockholders, for each taxable year, at least 90% of our Investment Company Taxable Income. The amount to be paid out as distributions to our common stockholders is determined by our Board of Directors quarterly and is based upon management's estimate of Investment Company Taxable Income and net long-term capital gains. Based on that estimate, our Board of Directors declares monthly distributions, and supplemental distributions, as appropriate, to common stockholders each quarter and deemed distributions of long-term capital gains annually as of the end of the fiscal year, as applicable.

The U.S. federal income tax characteristics of distributions paid to our common stockholders generally are reported to stockholders on IRS Form 1099 after the end of each calendar year. Estimates of tax characterization made on a quarterly basis may not be representative of the actual tax characterization of distributions for the full year. Estimates made on a quarterly basis are updated as of each interim reporting date. The tax characterization of distributions paid to our common stockholders during the calendar year ended December 31, 2018 was 81.2% from ordinary income and 18.8% from capital gains. The tax characterization of distributions paid to our common stockholders during the calendar year ended December 31, 2017 was 93.8% from ordinary income and 6.2% from capital gains.

We paid the following monthly distributions to our common stockholders for the years ended March 31, 2019, 2018 and 2017:

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Common Share |
|---|---|---|---|---|
| **2019** | April 10, 2018 | April 20, 2018 | April 30, 2018 | **$0.067** |
| | April 10, 2018 | May 22, 2018 | May 31, 2018 | **0.067** |
| | April 10, 2018 | June 6, 2018 | June 15, 2018 | **0.060**(A) |
| | April 10, 2018 | June 20, 2018 | June 29, 2018 | **0.067** |
| | July 10, 2018 | July 20, 2018 | July 31, 2018 | **0.067** |
| | July 10, 2018 | August 21, 2018 | August 31, 2018 | **0.067** |
| | July 10, 2018 | September 19, 2018 | September 28, 2018 | **0.067** |
| | October 9, 2018 | October 19, 2018 | October 31, 2018 | **0.068** |
| | October 9, 2018 | November 20, 2018 | November 30, 2018 | **0.068** |
| | October 9, 2018 | December 6, 2018 | December 14, 2018 | **0.060**(A) |
| | October 9, 2018 | December 20, 2018 | December 31, 2018 | **0.068** |
| | January 8, 2019 | January 18, 2019 | January 31, 2019 | **0.068** |
| | January 8, 2019 | February 20, 2019 | February 28, 2019 | **0.068** |
| | January 8, 2019 | March 20, 2019 | March 29, 2019 | **0.068** |
| | | | **Year ended March 31, 2019:** | **$0.930** |

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Common Share |
|---|---|---|---|---|
| **2018** | April 11, 2017 | April 21, 2017 | April 28, 2017 | **$0.064** |
| | April 11, 2017 | May 19, 2017 | May 31, 2017 | **0.064** |
| | April 11, 2017 | June 5, 2017 | June 15, 2017 | **0.060(A)** |
| | April 11, 2017 | June 21, 2017 | June 30, 2017 | **0.064** |
| | July 11, 2017 | July 21, 2017 | July 31, 2017 | **0.064** |
| | July 11, 2017 | August 21, 2017 | August 31, 2017 | **0.064** |
| | July 11, 2017 | September 20, 2017 | September 29, 2017 | **0.064** |
| | October 10, 2017 | October 20, 2017 | October 31, 2017 | **0.065** |
| | October 10, 2017 | November 20, 2017 | November 30, 2017 | **0.065** |
| | October 10, 2017 | December 5, 2017 | December 15, 2017 | **0.060(A)** |
| | October 10, 2017 | December 19, 2017 | December 29, 2017 | **0.065** |
| | January 9, 2018 | January 22, 2018 | January 31, 2018 | **0.065** |
| | January 9, 2018 | February 16, 2018 | February 28, 2018 | **0.065** |
| | January 9, 2018 | March 20, 2018 | March 30, 2018 | **0.065** |
| | | | **Year Ended March 31, 2018:** | **$0.894** |

| Fiscal Year | Declaration Date | Record Date | Payment Date | Distribution per Common Share |
|---|---|---|---|---|
| **2017** | April 12, 2016 | April 22, 2016 | May 2, 2016 | **$0.0625** |
| | April 12, 2016 | May 19, 2016 | May 31, 2016 | **0.0625** |
| | April 12, 2016 | June 17, 2016 | June 30, 2016 | **0.0625** |
| | July 12, 2016 | July 22, 2016 | August 2, 2016 | **0.0625** |
| | July 12, 2016 | August 22, 2016 | August 31, 2016 | **0.0625** |
| | July 12, 2016 | September 21, 2016 | September 30, 2016 | **0.0625** |
| | October 11, 2016 | October 21, 2016 | October 31, 2016 | **0.0625** |
| | October 11, 2016 | November 17, 2016 | November 30, 2016 | **0.0625** |
| | October 11, 2016 | December 20, 2016 | December 30, 2016 | **0.0625** |
| | January 10, 2017 | January 20, 2017 | January 31, 2017 | **0.0625** |
| | January 10, 2017 | February 16, 2017 | February 28, 2017 | **0.0625** |
| | January 10, 2017 | March 22, 2017 | March 31, 2017 | **0.0625** |
| | | | **Year Ended March 31, 2017:** | **$0.75** |

(A) Represents a supplemental distribution to common stockholders.

Aggregate cash distributions to our common stockholders declared quarterly and paid for the years ended March 31, 2019, 2018 and 2017 were $30.5 million, $28.9 million, and $22.7 million, respectively, and were declared based on estimates of Investment Company Taxable Income and net long-term capital gains for the respective fiscal years. For each of the fiscal years ended March 31, 2019, 2018, and 2017, Investment Company Taxable Income exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $16.0 million, $8.4 million, and $8.2 million, respectively, of the first distributions paid to common stockholders in the respective subsequent fiscal year as having been paid in the respective prior year. In addition, for each of the fiscal years ended March 31, 2019, 2018, and 2017, net capital gains exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat $13.2 million, $2.1 million, and $2.3 million, respectively, of the first distributions paid to common stockholders in the respective subsequent fiscal year as having been paid in the respective prior year.

We may distribute our net long-term capital gains, if any, in cash or elect to retain some or all of such gains, pay taxes at the U.S. federal corporate-level income tax rate on the amount retained, and designate the retained amount as a "deemed distribution." If we elect to retain net long-term capital gains and deem them distributed, each U.S. common stockholder will be treated as if they received a distribution of their pro rata share of the retained net long-term capital gain and the U.S. federal income tax paid. As a result, each common stockholder will (i) be required to report their pro rata share of the retained gain on their tax return as long-term capital gain, (ii) receive a refundable tax credit for their pro rata share of federal tax paid by us on the retained gain, and (iii) increase the tax basis of their shares of common stock by an amount equal to the deemed distribution less the tax credit. In order to use the deemed distribution approach, we must provide written notice to our common stockholders prior to the expiration of 60 days after the close of the relevant taxable year. For the year ended March 31, 2019, we elected to retain $50.0 million, or $1.52 per common share, of long-term capital gains and to treat them as deemed distributions to common stockholders. We incurred $10.5 million, or $0.32 per common share, of federal taxes on behalf of common stockholders, which was included in Taxes on deemed distribution of long-term capital gains on our accompanying *Consolidated Statements of Operations* and in Other Liabilities on our accompanying *Consolidated Statements of Assets and Liabilities*.

In addition, we recorded a reserve for uncertain tax positions related to potential Virginia state tax exposure related to the deemed distribution of $3.0 million for the year ended March 31, 2019, which was included in Taxes on deemed distribution of long-term capital gains on our accompanying *Consolidated Statements of Operations* and in Other Liabilities on our accompanying *Consolidated Statements of Assets and Liabilities*. We have requested clarification of the treatment of deemed distributions with respect to Virginia state taxes from the Virginia Department of Revenue. We expect to obtain such clarification during our fiscal year ending March 31, 2020.

We had no deemed distributions during the years ended March 31, 2018 and 2017.

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

| | Year Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Common stock | **$ 33** | $ 33 |
| Capital in excess of par value | **366,422** | 330,661 |
| Cumulative unrealized appreciation of investments | **34,330** | 14,303 |
| Cumulative unrealized appreciation of other | — | (500) |
| Undistributed ordinary income | **15,979** | 8,401 |
| Undistributed capital gain | **13,225** | 2,132 |
| Other temporary differences | **(22,879)** | (830) |
| **Net Assets** | **$407,110** | **$354,200** |

For the years ended March 31, 2019 and 2018, we recorded the following adjustments for permanent book-tax differences to reflect tax character. Results of operations, total net assets, and cash flows were not affected by these adjustments.

| | Tax Year Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Net investment income in excess of distributions | **$ 4,129** | $ 1,591 |
| Accumulated net realized gain in excess of distributions | **11,945** | (562) |
| Capital in excess of par value | **(16,074)** | (1,029) |

**NOTE 10. FEDERAL AND STATE INCOME TAXES**

We intend to continue to maintain our qualifications as a RIC for federal income tax purposes. As a RIC, we generally are not subject to federal income tax on the portion of our taxable income and gains that we distribute to stockholders. To maintain our qualification as a RIC, we must maintain our status as a BDC and meet certain source-of-income and asset diversification requirements. In addition, in order to qualify to be taxed as a RIC, we must distribute to stockholders at least 90% of our Investment Company Taxable Income. Our policy generally is to make distributions to our stockholders in an amount up to 100% of our Investment Company Taxable Income. We may retain some or all of our net long-term capital gains, if any, and designate them as deemed distributions, or distribute such gains to stockholders in cash. Because we have distributed or intend to distribute 100% of our Investment Company Taxable Income and net long-term capital gains, no income tax provisions have been recorded for the years ended March 31, 2019, 2018, and 2017.

In an effort to limit federal excise taxes, we have to distribute to stockholders, during each calendar year, an amount close to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our net capital gains (both long-term and short-term), if any, for the one-year period ending on October 31 of the calendar year and (3) any income realized, but not distributed, in the preceding period (to the extent that income tax was not imposed on such amounts), less certain reductions, as applicable. We incurred an excise tax of $0.3 million, $0.2 million, and $0.4 million for the calendar years ended December 31, 2018, 2017 and 2016, respectively.

Under the RIC Modernization Act, we are permitted to carryforward any capital losses that we may incur for an unlimited period, and such capital loss carryforwards will retain their character as either short-term or long-term capital losses. Our capital loss carryforward balance was $0 as of both March 31, 2019 and 2018.

## NOTE 11. COMMITMENTS AND CONTINGENCIES

*Legal Proceedings*

We are party to certain legal proceedings incidental to the normal course of our business. We are required to establish reserves for litigation matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves. Based on current knowledge, we do not believe that loss contingencies, if any, arising from pending investigations, litigation, or regulatory matters will have a material adverse effect on our financial condition, results of operation, or cash flows. Additionally, based on our current knowledge, we do not believe such loss contingencies are both probable and estimable and, therefore, as of March 31, 2019 and 2018, we had no established reserves for such loss contingencies.

*Escrow Holdbacks*

From time to time, we enter into arrangements relating to exits of certain investments whereby specific amounts of the proceeds are held in escrow to be used to satisfy potential obligations, as stipulated in the sales agreements. We record escrow amounts in Restricted cash and cash equivalents, if received in cash but subject to potential obligations or other contractual restrictions, or as escrow receivables in Other assets, net, if not yet received in cash, on our accompanying *Consolidated Statements of Assets and Liabilities*. We establish reserves and holdbacks against escrow amounts if we determine that it is probable and estimable that a portion of the escrow amounts will not ultimately be released or received at the end of the escrow period. Reserves and holdbacks against escrow amounts were $1.7 million and $0.3 million as of March 31, 2019 and March 31, 2018, respectively.

*Financial Commitments and Obligations*

We may have line of credit and delayed draw term loan commitments to certain of our portfolio companies that have not been fully drawn. Since these line of credit and delayed draw term loan commitments have expiration dates and we expect many will never be fully drawn, the total line of credit and delayed draw term loan commitment amounts do not necessarily represent future cash requirements. We estimate the fair value of the combined unused line of credit and delayed draw term loan commitments as of March 31, 2019 and 2018 to be immaterial.

We have also extended a guaranty on behalf of one of our portfolio companies. As of March 31, 2019 and 2018, we have not been required to make any payments on this guaranty, or any guaranties that existed in previous periods, and we consider the credit risk to be remote and the fair value of the guaranty as of March 31, 2019 and 2018 to be immaterial.

As of March 31, 2019, the following guaranty was outstanding:

- In February 2010, we executed a continuing guaranty of a wholesale financing facility agreement (the “Floor Plan Facility”) between DLL Finance LLC (“DLL” f/k/a Agricredit Acceptance, LLC) and CCE. The Floor Plan Facility provides CCE with financing of up to $2.0 million to bridge the time and cash flow gap between the order and delivery of golf carts to customers. In October 2018, we reduced the guaranty from $2.0 million to $1.0 million.

The following table summarizes the principal balances of unused line of credit and delayed draw term loan commitments and guaranties as of March 31, 2019 and 2018, which are not reflected as liabilities in the accompanying *Consolidated Statements of Assets and Liabilities*:

| | As of March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Unused line of credit and delayed draw term loan commitments | **$1,259** | $6,284 |
| Guaranties | **1,000** | 2,000 |
| Total | **$2,259** | $8,284 |

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**NOTE 12. FINANCIAL HIGHLIGHTS**

| | As of and for the Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** | **2015** |
| **Per Common Share Data:** | | | | | |
| Net asset value at beginning of year(A) | **$ 10.85** | $ 9.95 | $ 9.22 | $ 9.18 | $ 8.34 |
| *Income from investment operations*(B) | | | | | |
| Net investment income | **0.23** | 0.68 | 0.74 | 0.68 | 0.75 |
| Net realized gain (loss) on investments and other | **2.04** | 0.04 | 0.51 | (0.15) | — |
| Taxes on deemed distributions of long-term capital gains | **(0.41)** | — | — | — | — |
| Net unrealized appreciation of investments and other | **0.63** | 1.16 | 0.23 | 0.29 | 1.13 |
| Total from investment operations | **2.49** | 1.88 | 1.48 | 0.82 | 1.88 |
| *Effect of equity capital activity*(B) | | | | | |
| Cash distributions to common stockholders from net investment income(C) | **(0.69)** | (0.84) | (0.75) | (0.64) | (0.77) |
| Cash distributions to common stockholders from realized gains(C) | **(0.24)** | (0.05) | — | (0.11) | — |
| Discounts, commissions, and offering costs | **—** | (0.03) | — | (0.01) | (0.03) |
| Net dilutive effect of equity offering(D) | **—** | (0.04) | — | (0.03) | (0.22) |
| Total from equity capital activity | **(0.93)** | (0.96) | (0.75) | (0.79) | (1.02) |
| Other, net(B)(E) | **(0.01)** | (0.02) | — | 0.01 | (0.02) |
| Net asset value at end of year(A) | **$ 12.40** | $ 10.85 | $ 9.95 | $ 9.22 | $ 9.18 |
| Per common share market value at beginning of year | **$ 10.10** | $ 9.07 | $ 7.02 | $ 7.40 | $ 8.27 |
| Per common share market value at end of year | **11.60** | 10.10 | 9.07 | 7.02 | 7.40 |
| Total investment return(F) | **24.95%** | 21.82% | 41.58% | 4.82% | 11.96% |
| Common stock outstanding at end of year(A) | **32,822,459** | 32,653,635 | 30,270,958 | 30,270,958 | 29,775,958 |
| **Statement of Assets and Liabilities Data:** | | | | | |
| Net assets at end of year | **$ 407,110** | $ 354,200 | $ 301,082 | $ 279,022 | $ 273,429 |
| Average net assets(G) | **391,786** | 328,533 | 294,030 | 276,293 | 229,350 |
| **Senior Securities Data:** | | | | | |
| Total borrowings, at cost | **$ 58,096** | $ 112,096 | $ 74,796 | $ 100,096 | $ 123,896 |
| Mandatorily redeemable preferred stock(H) | **132,250** | 139,150 | 139,150 | 121,650 | 81,400 |
| **Ratios/Supplemental Data:** | | | | | |
| Ratio of net expenses to average net assets(I) | **13.30%** | 11.08% | 10.02% | 10.94% | 9.48% |
| Ratio of net investment income to average net assets(J) | **1.92** | 6.68 | 7.63 | 7.50 | 8.68 |

(A) Based on actual shares of common stock outstanding at the beginning or end of the corresponding year, as appropriate.
(B) Based on weighted-average basic common share data for the corresponding year.
(C) The tax character of distributions is determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP. For further information on the estimated character of our distributions to common stockholders, including changes in estimates, as applicable, refer to Note 9 — *Distributions to Common Stockholders*.
(D) During the years ended March 31, 2018, 2016, and 2015, the dilution is the result of issuing common shares at a price below the then current NAV per share.
(E) Represents the impact of the different share amounts (weighted-average basic common shares outstanding for the corresponding year and actual common shares outstanding at the end of the year) in the Per Common Share Data calculations and rounding impacts.
(F) Total return equals the change in the market value of our common stock from the beginning of the year, taking into account dividends reinvested in accordance with the terms of our dividend reinvestment plan. Total return does not take into account distributions that may be characterized as a return of capital. For further information on the estimated character of our distributions to common stockholders, including changes in estimates, as applicable, refer to Note 9 — *Distributions to Common Stockholders*.
(G) Calculated using the average balance of net assets at the end of each month of the reporting year.
(H) Represents the total liquidation preference of our mandatorily redeemable preferred stock.

(I) Ratio of net expenses to average net assets is computed using total expenses, net of any non-contractual, unconditional, and irrevocable credits of fees from the Adviser. Had we not received any non-contractual, unconditional, and irrevocable credits of fees from the Adviser, the ratio of expenses to average net assets would have been 16.45%, 14.11%, 13.46%, 14.50%, and 12.90%, for the fiscal years ended March 31, 2019, 2018, 2017, 2016, and 2015, respectively.

(J) Had we not received any non-contractual, unconditional, and irrevocable credits of fees from the Adviser, the ratio of net investment income (loss) to average net assets would have been (1.22)%, 3.66%, 4.19%, 3.94%, and 5.26% for the fiscal years ended March 31, 2019, 2018, 2017, 2016, and 2015, respectively.

**NOTE 13. SELECTED QUARTERLY DATA (UNAUDITED)**

| | Quarter Ended | | | |
|---|---|---|---|---|
| **Year ended March 31, 2019** | **June 30, 2018** | **September 30, 2018** | **December 31, 2018** | **March 31, 2019** |
| Total investment income | $ 15,504 | $ 13,091 | $ 14,965 | $ 16,103 |
| Net investment income (loss) | 58 | (3,994) | 6,022 | 5,455 |
| Net increase in net assets resulting from operations | 32,327 | 30,364 | 16,491 | 2,408 |
| Net increase in net assets resulting from operations per weighted-average common share – basic & diluted | 0.99 | 0.93 | 0.50 | 0.06 |

| | Quarter Ended | | | |
|---|---|---|---|---|
| **Year ended March 31, 2018** | **June 30, 2017** | **September 30, 2017** | **December 31, 2017** | **March 31, 2018** |
| Total investment income | $ 13,620 | $ 13,132 | $ 16,184 | $ 15,419 |
| Net investment income | 5,435 | 5,750 | 7,531 | 3,244 |
| Net increase in net assets resulting from operations | 8,141 | 13,556 | 17,144 | 21,846 |
| Net increase in net assets resulting from operations per weighted-average common share – basic & diluted | 0.26 | 0.42 | 0.53 | 0.67 |

**NOTE 14. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES**

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

We had one unconsolidated subsidiary, Galaxy Tool Holding Corporation ("Galaxy"), which met at least one of the significance conditions under Rule 1-02(w) of the SEC's Regulation S-X as of or during at least one of the years ended March 31, 2019, 2018 and 2017. Accordingly, pursuant to Rule 4-08 of Regulation S-X, summarized, comparative financial information is presented below for Galaxy as of March 31, 2019 and 2018 and for the years ended March 31, 2019, 2018, and 2017.

| | | As of March 31, | | | For the Year Ended March 31, | | |
|---|---|---|---|---|---|---|---|
| **Portfolio Company** | **Balance Sheet** | **2019** | **2018** | **Income Statement** | **2019** | **2018** | **2017** |
| Galaxy Tool Holding Corporation | Current assets | **$ 7,278** | $ 7,644 | Net sales | **$24,611** | $27,816 | $24,158 |
| | Noncurrent assets | **15,354** | 15,600 | Gross profit | **3,246** | 4,602 | 4,465 |
| | Current liabilities | **4,771** | 5,508 | Net (loss) income | **(276)** | 1,798 | 251 |
| | Noncurrent liabilities | **15,306** | 14,883 | | | | |

Galaxy was incorporated in Delaware on August 22, 2008 and is headquartered in Winfield, Kansas. Galaxy is a leading designer and manufacturer of precision tools for the aerospace industry and of injection and blow molds for the plastics industry.

**NOTE 15. SUBSEQUENT EVENTS**

*Distributions and dividends*

In April 2019, our Board of Directors declared the following monthly and supplemental cash distributions to common stockholders and monthly dividends to holders of our Series D Term Preferred and Series E Term Preferred Stock:

| Record Date | Payment Date | Distribution per Common Share | Dividend per Share of Series D Term Preferred Stock | Dividend per Share of Series E Term Preferred Stock |
|---|---|---|---|---|
| April 22, 2019 | April 30, 2019 | $ 0.068 | $ 0.13020833 | $ 0.13281250 |
| May 22, 2019 | May 31, 2019 | 0.068 | 0.13020833 | 0.13281250 |
| June 5, 2019 | June 14, 2019 | 0.090(A) | — | — |
| June 19, 2019 | June 28, 2019 | 0.068 | 0.13020833 | 0.13281250 |
| | **Total for the Quarter:** | **$ 0.294** | **$ 0.39062499** | **$ 0.39843750** |

(A) Represents a supplemental distribution to common stockholders.

*Investment Activity*

In April 2019, we sold our investment in Tread, which had a cost basis and fair value of $7.7 million and $4.4 million, respectively, as of March 31, 2019. In connection with the sale, we received net cash proceeds of $4.4 million, including the repayment of our debt investment of $3.2 million at par.

In April 2019, we sold our investment in Jackrabbit Inc., which had a cost basis and fair value of $14.7 million and $19.2 million, respectively, as of March 31, 2019. In connection with the sale, we received net cash proceeds of $19.7 million, including the repayment of our debt investment of $11.0 million at par.

In April and May 2019, we extended a line of credit to J.R. Hobbs with a total commitment amount of $10.0 million at a stated interest rate of LIBOR + 10.25%, which matures in October 2019.

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

Not applicable.

## ITEM 9A. CONTROLS AND PROCEDURES

### a) Disclosure Controls and Procedures

As of March 31, 2019 (the end of the period covered by this report), we, including our chief executive officer and chief financial officer, evaluated the effectiveness and design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective at a reasonable assurance level in timely alerting management, including the chief executive officer and chief financial officer, of material information about us required to be included in periodic SEC filings. However, in evaluation of the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

### b) Management's Annual Report on Internal Control over Financial Reporting

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

### c) Attestation Report of the Independent Registered Public Accounting Firm

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

### d) Change in Internal Control over Financial Reporting

There were no changes in internal controls for the three months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION.

Not applicable.

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# PART III

We will file a definitive Proxy Statement for our 2019 Annual Meeting of Stockholders (the "2019 Proxy Statement") with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2019 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is hereby incorporated by reference from our 2019 Proxy Statement under the captions "*Election of Directors*," "*Information Regarding the Board of Directors and Corporate Governance*," and "*Section 16(a) Beneficial Ownership Reporting Compliance*."

## ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from our 2019 Proxy Statement under the captions "*Executive Compensation*" and "*Director Compensation For Fiscal 2019*."

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

The information required by Item 12 is hereby incorporated by reference from our 2019 Proxy Statement under the caption "*Security Ownership of Certain Beneficial Owners and Management*."

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

The information required by Item 13 is hereby incorporated by reference from our 2019 Proxy Statement under the captions "*Certain Transactions*" and "*Information Regarding the Board of Directors and Corporate Governance*."

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference from our 2019 Proxy Statement under the caption "*Independent Registered Public Accounting Firm Fees*."

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

**a. DOCUMENTS FILED AS PART OF THIS REPORT**

1. The following financial statements are filed herewith:



2. The following financial statement schedule is filed herewith:



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

3. Exhibits

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

| | |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit A.2 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005. |
| 3.1.a | Certificate of Designation of 6.25% Series D Cumulative Term Preferred Stock Due 2023, incorporated by reference to Exhibit 3.5 to the Registration Statement on Form 8-A (File No. 001-34007), filed September 22, 2016. |
| 3.1.b | Certificate of Designation of 6.375% Series E Cumulative Term Preferred Stock Due 2025, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 814-00704), filed August 16, 2018. |
| 3.2 | Amended and Restated Bylaws, incorporated by reference to Exhibit b.2 to the Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 3.3 | First Amendment to Amended and Restated Bylaws, incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K (File No. 814-00704) filed July 10, 2007. |
| 4.1 | Specimen Stock Certificate, incorporated by reference to Exhibit d to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 4.2 | Specimen 6.25% Series D Cumulative Term Preferred Stock Due 2023 Stock Certificate, incorporated by reference to Exhibit 4.5 to the Registration Statement on Form 8-A (File No. 001-34007), filed September 22, 2016. |
| 4.3 | Specimen 6.375% Series E Cumulative Term Preferred Stock Due 2025 Stock Certificate incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K (File No. 814-00704), filed August 16, 2018. |
| 4.4* | Description of Securities |
| 10.1 | Stock Transfer Agency Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit k.1 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-123699), filed May 13, 2005. |
| 10.2 | Custody Agreement between the Registrant and The Bank of New York, incorporated by reference to Exhibit j to Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-123699), filed June 21, 2005. |
| 10.3 | Investment Advisory and Management Agreement between the Registrant and Gladstone Management Corporation, dated June 22, 2005, incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006. |
| 10.4 | Administration Agreement between the Registrant and Gladstone Administration, LLC, dated June 22, 2005, incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K (File No. 814-00704), filed June 14, 2006. |
| 10.5 | Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated October 19, 2006, incorporated by reference to Exhibit 2.j.2 to Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-181879), filed June 7, 2013. |
| 10.6 | Amendment No. 1 to Custodial Agreement by and among Gladstone Business Investment, LLC, the Registrant, Gladstone Management Corporation, The Bank of New York Trust Company, N.A. and Deutsche Bank AG, New York Branch, dated April 14, 2009, incorporated by reference to Exhibit 2.j.3 to Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-181879), filed June 7, 2013. |
| 10.7 | Fifth Amended and Restated Credit Agreement, dated as of April 30, 2013, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, the Financial Institutions as party thereto, and Key Equipment Finance, Inc., incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed May 2, 2013. |

| | |
|---|---|
| 10.8 | Joinder Agreement, dated as of June 12, 2013, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance Inc. and EverBank Commercial Finance, Inc., incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed June 17, 2013. |
| 10.9 | Joinder Agreement, dated as of June 12, 2013, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance Inc. and AloStar Bank of Commerce, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K (File No. 814-00704), filed June 17, 2013. |
| 10.10 | Amendment No. 1 to Fifth Amended and Restated Credit Agreement, dated as of June 26, 2014, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, the Financial Institutions as party thereto, and Key Equipment Finance, a division of KeyBank National Association, by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed June 30, 2014. |
| 10.11 | Joinder Agreement, dated as of September 19, 2014, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance, a division of KeyBank National Association, and East West Bank, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed September 22, 2014. |
| 10.12 | Joinder Agreement, dated as of September 19, 2014, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance, a division of KeyBank National Association, and Manufacturers and Traders Trust, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K (File No. 814-00704), filed September 22, 2014. |
| 10.13 | Joinder Agreement, dated as of September 19, 2014, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance, a division of KeyBank National Association, and Customers Bank, incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K (File No. 814-00704), filed September 22, 2014. |
| 10.14 | Joinder Agreement, dated as of September 19, 2014, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, Key Equipment Finance, a division of KeyBank National Association, and Talmer Bank and Trust, incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K (File No. 814-00704), filed September 22, 2014. |
| 10.15 | Amendment No. 2 to Fifth Amended and Restated Credit Agreement, dated November 16, 2016, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, Keybank National Association, AloStar Bank of Commerce, Manufacturers and Traders Trust, East West Bank, Chemical Bank (as successor in interest to Talmer Bank and Trust) and Customers Bank, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 811-23191), filed November 17, 2016. |
| 10.16 | Amendment No. 3 to Fifth Amended and Restated Credit Agreement, dated January 20, 2017, by and among Gladstone Business Investment, LLC, Gladstone Management Corporation, Keybank National Association, AloStar Bank of Commerce, Manufacturers and Traders Trust, East West Bank, Chemical Bank (as successor in interest to Talmer Bank and Trust) and Customers Bank, incorporated by reference to Exhibit 2.k.12 to Post-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-204996), filed May 11, 2017. |
| 10.17 | Amendment No. 4 to Fifth Amended and Restated Credit Agreement, dated as of August 22, 2018 by and among Gladstone Business Investment, LLC, as Borrower, Gladstone Management Corporation, as Servicer, Keybank National Association, as administrative agent, swingline lender, managing agent and lead arranger and certain other lenders party thereto, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 814-00704), filed August 23, 2018. |
| 14 | Code of Ethics and Business Conduct, updated January 28, 2013, incorporated by reference to Exhibit 2.r to the Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-181979), filed June 7, 2013. |
| 21* | Subsidiaries of the Registrant. |
| 31.1* | Certification of Chief Executive Officer filed pursuant to section 302 of The Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer filed pursuant to section 302 of The Sarbanes-Oxley Act of 2002. |
| 32.1† | Certification of Chief Executive Officer furnished pursuant to section 906 of The Sarbanes-Oxley Act of 2002. |
| 32.2† | Certification of Chief Financial Officer furnished pursuant to section 906 of The Sarbanes-Oxley Act of 2002. |
| 99.1* | Report of Registered Public Accounting Firm |

* Filed herewith
† Furnished herewith

**Item 16. Form 10-K Summary.**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| | **GLADSTONE INVESTMENT CORPORATION** |
| Date: May 13, 2019 | By: /s/ JULIA RYAN<br>Julia Ryan<br>Chief Financial Officer and Treasurer |

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

| | |
|---|---|
| Date: May 13, 2019 | By: /s/ DAVID GLADSTONE<br>David Gladstone<br>Chief Executive Officer and Chairman of the Board of Directors (principal executive officer) |
| Date: May 13, 2019 | By: /s/ TERRY LEE BRUBAKER<br>Terry Lee Brubaker<br>Vice Chairman and Chief Operating Officer |
| Date: May 13, 2019 | By: /s/ JULIA RYAN<br>Julia Ryan<br>Chief Financial Officer and Treasurer (principal financial and accounting officer) |
| Date: May 13, 2019 | By: /s/ ANTHONY W. PARKER<br>Anthony W. Parker<br>Director |
| Date: May 13, 2019 | By: /s/ MICHELA A. ENGLISH<br>Michela A. English<br>Director |
| Date: May 13, 2019 | By: /s/ PAUL ADELGREN<br>Paul Adelgren<br>Director |
| Date: May 13, 2019 | By: /s/ JOHN H. OUTLAND<br>John H. Outland<br>Director |
| Date: May 13, 2019 | By: /s/ CAREN D. MERRICK<br>Caren D. Merrick<br>Director |
| Date: May 13, 2019 | By: /s/ WALTER H. WILKINSON, JR.<br>Walter H. Wilkinson, Jr.<br>Director |

SCHEDULE 12-14

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

| Company and Investment(A)(B)(C)(D)(E) | Principal/ Shares/Units(F)(G) | Net Realized Gain (Loss) for Period | Amount of Investment Income(H) | Value as of March 31, 2018 | Gross Additions(I) | Gross Reductions(J) | Net Unrealized Appreciation (Depreciation) | Value as of March 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| **AFFILIATE INVESTMENTS – 72.8%** | | | | | | | | |
| **Secured First Lien Debt – 42.8%** | | | | | | | | |
| **Automobile – 1.4%** | | | | | | | | |
| Meridian Rack & Pinion, Inc. – Term Debt (L+11.5%, 14.0% Cash, Due 6/2019)(K) | $ 9,660 | $ — | $ 891 | $ 8,018 | $ — | $ — | $ (2,222) | $ 5,796 |
| **Beverage, Food, and Tobacco – 2.2%** | | | | | | | | |
| Head Country, Inc. – Term Debt (L+10.5%, 13.0% Cash, Due 2/2021) | 9,050 | — | 1,168 | 9,050 | — | — | — | 9,050 |
| **Diversified/Conglomerate Manufacturing – 4.6%** | | | | | | | | |
| D.P.M.S., Inc. – Term Debt (10.0% Cash, Due 10/2021)(M) | 10,796 | — | 965 | 7,028 | 2,000 | — | (1,913) | 7,115 |
| Edge Adhesives Holdings, Inc. – Term Debt (L+10.5%, 13.0% Cash, Due 2/2022) | 9,300 | — | 1,200 | 8,742 | — | — | 209 | 8,951 |
| Edge Adhesives Holdings, Inc. – Term Debt (L+11.8%, 14.2% Cash, Due 2/2022) | 3,000 | — | 381 | 2,268 | 600 | — | 34 | 2,902 |
| | | — | 2,546 | 18,038 | 2,600 | — | (1,670) | 18,968 |
| **Diversified/Conglomerate Services – 14.2%** | | | | | | | | |
| ImageWorks Display and Marketing Group, Inc. – Line of Credit | — | — | — | 300 | — | (300) | — | — |
| ImageWorks Display and Marketing Group, Inc. – Term Debt (L+11.0%, 13.5% Cash, Due 11/2022) | 22,000 | — | 2,951 | 22,000 | — | — | — | 22,000 |
| J.R. Hobbs Co. – Atlanta, LLC – Term Debt (L+10.3%, 12.7% Cash, Due 10/2023) | 36,000 | — | 4,317 | 21,000 | 15,000 | — | — | 36,000 |
| | | — | 7,268 | 43,300 | 15,000 | (300) | — | 58,000 |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 8.2%** | | | | | | | | |
| Brunswick Bowling Products, Inc. – Term Debt (L+10.0%, 12.5% Cash, Due 1/2023) | 17,700 | — | 2,535 | 17,700 | — | — | — | 17,700 |
| Old World Christmas, Inc. – Term Debt (L+11.3%, 13.7% Cash, Due 10/2019) | 15,770 | — | 2,655 | 15,770 | — | — | — | 15,770 |
| | | — | 5,190 | 33,470 | — | — | — | 33,470 |

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

| Company and Investment[(A)(B)(C)(D)(E)] | Principal/ Shares/ Units[(F)(G)] | Net Realized Gain (Loss) for Period | Amount of Investment Income[(H)] | Value as of March 31, 2018 | Gross Additions[(I)] | Gross Reductions[(J)] | Net Unrealized Appreciation (Depreciation) | Value as of March 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| **Leisure, Amusement, Motion Pictures, and Entertainment – 2.2%** | | | | | | | | |
| SOG Specialty Knives & Tools, LLC – Term Debt (L+4.0%, 6.5% Cash, Due 8/2020)[(K)(Q)] | 8,399 | — | — | — | 8,399 | — | | 8,399 |
| SOG Specialty Knives & Tools, LLC – Term Debt (Due 8/2020)[(L)] | 538 | — | — | 440 | — | — | 98 | 538 |
| SOG Specialty Knives & Tools, LLC – Term Debt[(Q)] | — | — | 145 | 6,200 | — | (6.200) | — | — |
| SOG Specialty Knives & Tools, LLC – Term Debt[(Q)] | — | (10,000) | 316 | 8.827 | — | (12,200) | 3,373 | — |
| | | (10,000) | 461 | 15,467 | 8,399 | (18,400) | 3,471 | 8,937 |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 6.3%** | | | | | | | | |
| The Mountain Corporation – Line of Credit, $400 available (L+5.0%, 9.0% Cash, Due 4/2020)[(O)] | 2,500 | — | 2 | — | 2,500 | — | — | 2,500 |
| Pioneer Square Brands, Inc. – Line of Credit | — | — | 40 | 2,400 | 600 | (3,000) | — | — |
| Pioneer Square Brands, Inc. – Term Debt (L+12.0%, 14.5% Cash, Due 8/2022) | 23,100 | — | 3,117 | 21,000 | 2,100 | — | — | 23,100 |
| | | — | 3,159 | 23,400 | 5,200 | (3,000) | — | 25,600 |
| **Telecommunications – 3.7%** | | | | | | | | |
| B+T Group Acquisition, Inc. – Line of Credit, $175 available (L+11.0%, 13.5% Cash, Due 12/2021)[(O)] | 1,225 | — | 31 | — | 1,225 | — | — | 1,225 |
| B+T Group Acquisition, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 12/2021) | 14,000 | — | 1,878 | 14,000 | — | — | — | 14,000 |
| | | — | 1,909 | 14,000 | 1,225 | — | — | 15,225 |
| **Textiles and Leather – 0.0%** | | | | | | | | |
| Logo Sportswear, Inc. – Term Debt[(N)] | — | — | 346 | 9,200 | — | (9,200) | — | — |
| **Total Secured First Lien Debt** | | **$ (10,000)** | **$ 22,938** | **$ 173,943** | **$ 32,424** | **$ (30,900)** | **$ (421)** | **$ 175,046** |
| **Secured Second Lien Debt – 8.6%** | | | | | | | | |
| **Chemicals, Plastics, and Rubber – 4.1%** | | | | | | | | |
| PSI Molded Plastics, Inc. – Term Debt (L+12.0%, 14.5% Cash, Due 1/2024)[(K)] | 26,618 | $ — | $ 285 | $ 24,618 | $ 2,000 | $ — | $ (9,977) | $ 16,641 |

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

| Company and Investment(A)(B)(C)(D)(E) | Principal/ Shares/ Units(F)(G) | Net Realized Gain (Loss) for Period | Amount of Investment Income(H) | Value as of March 31, 2018 | Gross Additions(I) | Gross Reductions(J) | Net Unrealized Appreciation (Depreciation) | Value as of March 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| **Diversified/Conglomerate Manufacturing – 3.2%** | | | | | | | | |
| Alloy Die Casting Co. – Term Debt (L+4.0%, 6.5% Cash, Due 4/2021) | $ 12,215 | $ — | $ 874 | $ 9,161 | $ — | $ — | $ 2,871 | $ 12,032 |
| Alloy Die Casting Co. – Term Debt (L+4.0%, 6.5% Cash, Due 4/2021) | 175 | — | 45 | 131 | — | — | 41 | 172 |
| Alloy Die Casting Co. – Term Debt (L+4.0%, 6.5% Cash, Due 4/2021) | 910 | — | 57 | 687 | — | — | 209 | 896 |
| | | — | 976 | 9,979 | — | — | 3,121 | 13,100 |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 0.0%** | | | | | | | | |
| Cambridge Sound Management, Inc. – Term Debt(N) | — | — | 2,054 | 16,000 | — | (16,000) | — | — |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 1.3%** | | | | | | | | |
| The Mountain Corporation – Term Debt (L+4.0%, 7.0% Cash, Due 4/2024)(K)(Q) | 11,700 | — | — | — | 11,700 | — | (6,531) | 5,169 |
| The Mountain Corporation – Term Debt(Q) | — | (10,000) | 109 | 8,692 | — | (18,600) | 9,908 | — |
| The Mountain Corporation – Term Debt(Q) | — | — | — | 1,000 | — | (1,000) | — | — |
| The Mountain Corporation – Term Debt(Q) | — | — | — | 1,500 | — | (1,500) | — | — |
| The Mountain Corporation – Delayed Draw Term Debt(Q) | — | — | — | 250 | 350 | (600) | — | — |
| | | (10,000) | 109 | 11,442 | 12,050 | (21,700) | (3,377) | 5,169 |
| **Total Secured Second Lien Debt** | | $ (10,000) | $ 3,424 | $ 62,039 | $ 14,050 | $ (37,700) | $ (3,479) | $ 34,910 |
| **Preferred Equity – 21.0%** | | | | | | | | |
| **Automobile – 0.0%** | | | | | | | | |
| Meridian Rack & Pinion, Inc. – Preferred Stock | 3,381 | $ — | $ — | $ 802 | $ — | $ — | $ (802) | $ — |
| **Beverage, Food, and Tobacco – 0.7%** | | | | | | | | |
| Head Country, Inc. – Preferred Stock | 4,000 | — | — | 2,555 | — | — | 332 | 2,887 |
| **Cargo Transport – 0.0%** | | | | | | | | |
| NDLI, Inc. – Preferred Stock(N) | — | (3,600) | — | — | — | (3,600) | 3,600 | — |
| **Chemicals, Plastics, and Rubber – 0.0%** | | | | | | | | |
| PSI Molded Plastics, Inc. – Preferred Stock | 58,598 | — | — | 3,016 | 750 | — | (3,766) | — |

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

| Company and Investment(A)(B)(C)(D)(E) | Principal/ Shares/ Units(F)(G) | Net Realized Gain (Loss) for Period | Amount of Investment Income(H) | Value as of March 31, 2018 | Gross Additions(I) | Gross Reductions(J) | Net Unrealized Appreciation (Depreciation) | Value as of March 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| **Diversified/Conglomerate Manufacturing – 1.9%** | | | | | | | | |
| Alloy Die Casting Co. – Preferred Stock | 5,114 | $ — | $ — | $ — | $ — | $ — | $ 7,616 | $ 7,616 |
| Channel Technologies Group, LLC – Preferred Stock | 2,279 | — | — | — | — | — | — | — |
| Edge Adhesives Holdings, Inc. – Preferred Stock | 3,774 | — | — | 1,925 | — | — | (1,925) | — |
| | | — | — | 1,925 | — | — | 5,691 | 7,616 |
| **Diversified/Conglomerate Services – 6.5%** | | | | | | | | |
| ImageWorks Display and Marketing Group, Inc. – Preferred Stock | 67,490 | — | — | 9,422 | — | — | (896) | 8,526 |
| J.R. Hobbs Co. – Atlanta, LLC – Preferred Stock | 5,920 | — | — | 14,480 | — | — | 3,342 | 17,822 |
| | | — | — | 23,902 | — | — | 2,446 | 26,348 |
| **Home and Office Furnishings, Housewares, and Durable Consumer Products – 9.7%** | | | | | | | | |
| Brunswick Bowling Products, Inc. – Preferred Stock | 4,943 | — | — | 16,615 | — | — | 7,132 | 23,747 |
| Cambridge Sound Management, Inc. – Preferred Stock(N) | — | 66,012 | — | 26,178 | — | (4,500) | (21,678) | — |
| Old World Christmas, Inc. – Preferred Stock | 6,180 | — | — | 10,411 | — | — | 5,498 | 15,909 |
| | | 66,012 | — | 53,204 | — | (4,500) | (9,048) | 39,656 |
| **Leisure, Amusement, Motion Pictures, and Entertainment – 0.0%** | | | | | | | | |
| SOG Specialty Knives & Tools, LLC – Preferred Stock | 11,249 | — | — | — | 1,500 | — | (1,361) | 139 |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 2.2%** | | | | | | | | |
| The Mountain Corporation – Preferred Stock | 6,899 | — | — | — | — | — | — | — |
| Pioneer Square Brands, Inc. – Preferred Stock | 5,502 | — | — | 7,800 | — | — | 1,160 | 8,960 |
| | | — | — | 7,800 | — | — | 1,160 | 8,960 |
| **Telecommunications – 0.0%** | | | | | | | | |
| B+T Group Acquisition, Inc. – Preferred Stock | 12,841 | — | — | — | — | — | — | — |

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

| Company and Investment(A)(B)(C)(D)(E) | Principal/ Shares/Units(F)(G) | Net Realized Gain (Loss) for Period | Amount of Investment Income(H) | Value as of March 31, 2018 | Gross Additions(I) | Gross Reductions(J) | Net Unrealized Appreciation (Depreciation) | Value as of March 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| **Textiles and Leather – 0.0%** | | | | | | | | |
| Logo Sportswear, Inc. – Preferred Stock(N) | — | 13,013 | — | 10,207 | — | (1,096) | (9,111) | — |
| **Total Preferred Equity** | | **$ 75,425** | **$ —** | **$ 103,411** | **$ 2,250** | **$ (9,196)** | **$ (10,859)** | **$ 85,606** |
| **Common Equity – 0.4%** | | | | | | | | |
| **Cargo Transport – 0.0%** | | | | | | | | |
| NDLI, Inc. – Common Stock(N) | — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| **Diversified/Conglomerate Manufacturing – 0.4%** | | | | | | | | |
| Alloy Die Casting Co. – Common Stock | 630 | — | — | — | — | — | 1,551 | 1,551 |
| Channel Technologies Group, LLC – Common Stock | 2,319,184 | — | — | — | — | — | — | — |
| D.P.M.S., Inc. – Common Stock | 627 | — | — | — | — | — | — | — |
| | | — | — | — | — | — | 1,551 | 1,551 |
| **Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.0%** | | | | | | | | |
| The Mountain Corporation – Common Stock | 751 | — | — | — | — | — | — | — |
| **Total Common Equity** | | $ — | $ — | $ — | $ — | $ — | $ 1,551 | $ 1,551 |
| **TOTAL AFFILIATE INVESTMENTS** | | **$ 55,425** | **$ 26,362** | **$ 339,393** | **$ 48,724** | **$ (77,796)** | **$ (13,209)** | **$ 297,113** |
| **CONTROL INVESTMENTS – 3.2%:** | | | | | | | | |
| **Secured First Lien Debt – 0.0%** | | | | | | | | |
| **Aerospace and Defense – 0.0%** | | | | | | | | |
| Galaxy Tool Holding Corporation – Line of Credit, $0 available (L+4.5%, 6.5% Cash (1.0% Unused Fee), Due 8/2019 (P) | $ — | $ — | $ — | $ 5,000 | $ — | $ (5,000) | $ — | **$ —** |
| **Secured Second Lien Debt – 2.4%** | | | | | | | | |
| **Aerospace and Defense – 2.4%** | | | | | | | | |
| Galaxy Tool Holding Corporation – Line of Credit, $0 available (L+4.5%, 6.5% Cash (1.0% Unused Fee), Due 8/2019)(P) | $ 5,000 | $ — | 341 | $ — | $ 5,000 | $ — | $ — | $ 5,000 |
| Galaxy Tool Holding Corporation – Term Debt (L+6.0%, 10.0% Cash, Due 8/2019) | $ 5,000 | $ — | 2,507 | $ 5,000 | $ — | $ — | $ — | $ 5,000 |
| | | **$ —** | **$ 2,848** | **$ 5,000** | **$ 5,000** | **$ —** | **$ —** | **$ 10,000** |

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

| Company and Investment(A)(B)(C)(D)(E) | Principal/ Shares/Units(F) (G) | Net Realized Gain (Loss) for Period | Amount of Investment Income(H) | Value as of March 31, 2018 | Gross Additions(I) | Gross Reductions(J) | Net Unrealized Appreciation (Depreciation) | Value as of March 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| **Preferred Equity – 0.8%** | | | | | | | | |
| **Aerospace and Defense – 0.8%** | | | | | | | | |
| Galaxy Tool Holding Corporation – Preferred Stock | 5,517,444 | $ — | $ — | $ 2,457 | $ — | $ — | $ 852 | $ 3,309 |
| **Common Equity – 0.0%** | | | | | | | | |
| **Aerospace and Defense – 0.0%** | | | | | | | | |
| Galaxy Tool Holding Corporation – Common Stock | 88,843 | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| **TOTAL CONTROL INVESTMENTS** | | **$ —** | **$ 2,848** | **$ 12,457** | **$ 5,000** | **$ (5,000)** | **$ 852** | **$ 13,309** |
| **TOTAL AFFILIATE AND CONTROL INVESTMENTS** | | **$ 55,425** | **$ 29,210** | **$ 351,850** | **$ 53,724** | **$ (82,796)** | **$ (12,356)** | **$ 310,422** |

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

(A) Certain of the listed securities are issued by affiliate(s) of the indicated portfolio company.
(B) Common stock, warrants, options and, in some cases, preferred stock are generally non-income-producing and restricted.
(C) Unless indicated otherwise, all cash interest rates are indexed to 30-day London Interbank Offered Rate ("LIBOR"), which was 2.5% as of March 31, 2019. If applicable, paid-in-kind interest rates are noted separately from the cash interest rate. Certain securities are subject to an interest rate floor. The cash interest rate is the greater of the floor or LIBOR plus a spread. Due dates represent the contractual maturity date.
(D) Category percentages represent the fair value of each category and subcategory as a percentage of net assets as of March 31, 2019.
(E) Unless indicated otherwise, all of our investments are valued using Level 3 inputs within the Financial Accounting Standards Board Accounting Standard Codification 820 fair value hierarchy. Refer to Note 3 — *Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.
(F) Where applicable, aggregates all shares of a class of stock owned without regard to specific series owned within such class (some series of which may or may not be voting shares) or aggregates all warrants to purchase shares of a class of stock owned without regard to specific series of such class of stock such warrants allow us to purchase.
(G) Represents the principal balance for debt investments and the number of shares/units held for equity investments. Warrants are represented as a percentage of ownership, as applicable.
(H) Represents the total amount of interest, dividend, success fee, or other investment income credited to income for the portion of the year an investment was an affiliate investment or control investment, as appropriate.
(I) Gross additions include increases in investments resulting from new portfolio investments, the amortization of discounts and fees, and the exchange of one or more existing securities for one or more new securities.
(J) Gross reductions include decreases in investments resulting from principal collections related to investment repayments or sales, the amortization of premiums and acquisition costs, and the exchange of one or more existing securities for one or more new securities.
(K) Debt security is on non-accrual status.
(L) Debt security does not have a stated current interest rate.
(M) Debt security has a fixed interest rate.
(N) Investment was exited during the year ended March 31, 2019.
(O) New investment during the year ended March 31, 2019.
(P) The debt investment in Galaxy Tool Holding Corporation was converted from secured first lien debt to secured second lien debt during the year ended March 31, 2019.
(Q) Investment was restructured during the year ended March 31, 2019.

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

# DESCRIPTION OF SECURITIES

## (a) Common Stock, $0.001 par value per share

All shares of our common stock have equal rights as to earnings, assets, dividends and voting and are duly authorized, validly issued, fully paid and nonassessable. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract.

Distributions may be paid to the holders of our common stock if, as and when declared by our Board of Directors out of funds legally available therefor. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. In accordance with the certificates of designation for our outstanding series of preferred stock, for so long as any shares of our preferred stock are outstanding, we will not: (x) declare any dividend or other distribution (other than a dividend or distribution paid in shares of our common stock) in respect of our common stock, (y) call for redemption, redeem, purchase or otherwise acquire for consideration any shares of our common stock, or (z) pay any proceeds of our liquidation in respect of our common stock, unless, in each case, (A) immediately thereafter, we have asset coverage for our senior securities (as calculated in accordance with the Investment Company Act of 1940, as amended (the "1940 Act")) equal to at least 200% (with respect to our Series D Term Preferred Stock (as defined below)) or 150% (with respect to our Series E Term Preferred Stock (as defined below)) after deducting the amount of such dividend or distribution or redemption or purchase price or liquidation proceeds and (B) all cumulative dividends and distributions on all shares of our outstanding series of preferred stock due on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition have been declared and paid.

Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. Except as otherwise provided by statute, by the rules of the Nasdaq Global Select Market ("Nasdaq") or other applicable stock exchange, by our certificate of incorporation or by our bylaws, in all matters other than the election of directors, the affirmative vote of the majority of shares present or represented by proxy at a meeting of our stockholders and entitled to vote will be the act of the stockholders. Except as otherwise provided by statute, by our certificate of incorporation or by our bylaws, directors shall be elected by a plurality of the votes of the shares present or represented by proxy at a meeting of our stockholders and entitled to vote on the election of directors. Our common stock is listed on Nasdaq under the ticker symbol "GAIN."

## (b) Preferred Stock, $0.001 par value per share

- **6.25% Series D Cumulative Term Preferred Stock due 2023 ("Series D Term Preferred Stock")**
- **6.375% Series E Cumulative Term Preferred Stock due 2025 ("Series E Term Preferred Stock")**

Of the 10,000,000 shares of our capital stock designated as preferred stock, 3,000,000 are designated as Series D Term Preferred Stock and 3,500,000 are designated as Series E Term Preferred Stock. All shares of our preferred stock are duly authorized, validly issued, fully paid and nonassessable. Shares of our preferred stock have no preemptive, exchange or conversion rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. Shares of our Series D Term Preferred Stock and Series E Term Preferred Stock are traded on Nasdaq under the trading symbols "GAINM" and "GAINL," respectively.

The following is a summary of the material terms of each outstanding series of our preferred stock. The following summary is qualified in its entirety, with respect to each series, by reference to the certificate of designation for such series, which is filed as an exhibit to our annual report on Form 10-K.

### Dividend Rights

The holders of Series D Term Preferred Stock are entitled to monthly dividends in the amount of 6.25% per annum on the stated liquidation preference of Series D Term Preferred Stock, or $0.13020833 per share. The holders of Series E Term Preferred Stock are entitled to monthly dividends in the amount of 6.375% per annum on the stated liquidation preference of Series E Term Preferred Stock, or $0.13281250 per share.

In the event that we fail to pay dividends on or to redeem the Series D Term Preferred Stock or Series E Term Preferred Stock when required, the dividend rate with respect to such series shall increase by 3% per annum until such default is cured.

Voting Rights

The holders of our preferred stock are entitled to one vote per share and do not have cumulative voting. The holders of our preferred stock generally vote together with the holders of our common stock, except that the holders of our preferred stock have the right to elect two of our directors. Furthermore, during any period that we owe accumulated dividends, whether or not earned or declared, on any preferred stock equal to at least two full years of dividends, the holders of our preferred stock will have the right to elect a majority of our Board of Directors.

Liquidation Rights

In the event of a dissolution, liquidation or winding up of our affairs, our preferred stock has a liquidation preference over our common stock equal to $25 per share, plus all unpaid dividends and distributions accumulated to (but excluding) the date fixed for payment on such shares.

Redemption

The Series D Term Preferred Stock has a mandatory redemption date of September 30, 2023. The Series E Term Preferred Stock has a mandatory redemption date of August 31, 2025. However, if we fail to maintain asset coverage as calculated in accordance the 1940 Act of at least 200% with respect to the Series D Term Preferred Stock or 150% with respect to the Series E Term Preferred Stock, we will be required to redeem a portion of our outstanding preferred stock to enable us to meet the required asset coverage at a price per share equal to the liquidation preference plus all accumulated and unpaid dividends and distributions. In the event of a change of control, we will also be required to redeem the shares of our preferred stock at a price per share equal to the liquidation preference plus all accumulated and unpaid dividends and distributions.

We have the option to redeem shares of Series D Term Preferred Stock at any time after September 30, 2018, with no redemption premium. We have the option to redeem shares of Series E Term Preferred Stock at any time after August 31, 2020, with no redemption premium.

**(c) Provisions of our Certificate of Incorporation or Bylaws that may have the effect of delaying, deferring or preventing a change of control**

Classified Board of Directors

Pursuant to our bylaws, as amended, our Board of Directors is divided into three classes of directors. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three-year term. The holders of outstanding shares of any preferred stock are entitled, as a class, to the exclusion of the holders of all other securities and classes of common stock, to elect two of our directors at all times (regardless of the total number of directors serving on the Board of Directors). We refer to these directors as the Preferred Directors. The holders of outstanding shares of common stock and preferred stock, voting together as a single class, elect the balance of our directors. Any director elected to fill a vacancy shall serve for the remainder of the full term of the class in which the vacancy occurred and until a successor is elected and qualified. Holders of shares of our stock have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of our stockholders, the holders of a plurality of the combined shares of common stock and preferred stock are able to elect all of the successors to the class of directors whose term expires at such meeting (other than the Preferred Directors, who will be elected by the holders of a plurality of the preferred stock).

Our classified board could have the effect of making the replacement of incumbent directors more time consuming and difficult. Because our directors may only be removed for cause, at least two annual meetings of stockholders, instead of one, will generally be required to effect a change in a majority of our Board of Directors. Thus, our classified board could increase the likelihood that incumbent directors will retain their positions. The staggered terms of directors may delay, defer or prevent a tender offer or an attempt to change control of us or another transaction that might involve a premium price for our common stock that might be in the best interest of our stockholders.

Removal of Directors

Any director may be removed only for cause by the stockholders upon the affirmative vote of at least two-thirds of all the votes entitled to be cast at a meeting called for the purpose of the proposed removal. The notice of the meeting shall indicate that the purpose, or one of the purposes, of the meeting is to determine if the director shall be removed.

Business Combinations

Section 203 of the Delaware General Corporation Law generally prohibits “business combinations” between us and an “interested stockholder” for three years after the date of the transaction in which the person became an interested stockholder. In general, Delaware law defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling, or controlled by, the entity or person. These business combinations include:

- Any merger or consolidation involving the corporation and the interested stockholder;
- Any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- Subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or
- The receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

Section 203 permits certain exemptions from its provisions for transactions in which:

- Prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- The interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- On or subsequent to the date of the transaction, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Merger; Amendment of Certificate of Incorporation

Under Delaware law, we will not be able to amend our certificate of incorporation or merge with another entity unless approved by the affirmative vote of stockholders holding at least a majority of the shares entitled to vote on the matter.

Advance Notice of Director Nominations and New Business

Our bylaws provide that, with respect to an annual meeting of stockholders, nominations of persons for election to our Board of Directors and the proposal of business to be considered by stockholders at the annual meeting may be made only:

- pursuant to our notice of the meeting;
- by our Board of Directors; or
- by a stockholder who was a stockholder of record both at the time of the provision of notice and at the time of the meeting who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in our bylaws.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting of stockholders and nominations of persons for election to our Board of Directors may be made only:

- pursuant to our notice of the meeting;
- by our Board of Directors; or
- provided that our Board of Directors has determined that directors shall be elected at such meeting, by a stockholder who was a stockholder of record both at the time of the provision of notice and at the time of the meeting who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in our bylaws.

Preferred Stock

Our certificate of incorporation gives our Board of Directors the authority, without further action by stockholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications and restrictions granted to or imposed upon such preferred stock, including dividend rights, conversion rights, voting rights, rights and terms of redemption, and liquidation preference, any or all of which may be greater than the rights of the common stock. Thus, our Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. The issuance of preferred stock could adversely affect the voting power of holders of common stock and reduce the likelihood that such holders will receive dividend payments and payments upon liquidation, and could also decrease the market price of our common stock.

Possible Anti-Takeover Effect of Certain Provisions of Delaware Law and of Our Certificate of Incorporation and Bylaws

The business combination provisions of Delaware law, the provisions of our bylaws regarding the classification of our Board of Directors, the Board of Directors' ability to issue preferred stock with terms and conditions that could have a priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock, and the advance notice provisions of our bylaws could have the effect of delaying, deferring or preventing a transaction or a change in the control that might involve a premium price for holders of common stock or otherwise be in their best interest.

**EXHIBIT 21**

**SUBSIDIARIES OF THE REGISTRANT**

Gladstone Business Investment, LLC (organized in Delaware)
Galaxy Tool Holding Corporation (organized in Delaware)

Exhibit 31.1

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

I, David Gladstone, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: May 13, 2019

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

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

I, Julia Ryan, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: May 13, 2019

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

**Exhibit 32.1**

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

The undersigned, the Chief Executive Officer and Chairman of the Board of Gladstone Investment Corporation (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the fiscal year ended March 31, 2019 ("Form 10-K"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2019

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

**Exhibit 32.2**

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

The undersigned, the Chief Financial Officer of Gladstone Investment Corporation (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K for the fiscal year ended March 31, 2019 (“Form 10-K”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2019

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

**EXHIBIT 99.1**

**Report of Independent Registered Public Accounting Firm**

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

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Gladstone Investment Corporation and its subsidiaries (the "Company") as of March 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2019, including the related notes, and the effectiveness of the Company's internal control over financial reporting as of March 31, 2019, and in our report dated May 13, 2019, we expressed an unqualified opinion thereon. We have also previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities, including the consolidated schedules of investments, as of March 31, 2017, March 31, 2016, March 31, 2015, March 31, 2014, March 31, 2013, March 31, 2012, March 31, 2011, and March 31, 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years ended March 31, 2016, March 31, 2015, March 31, 2014, March 31, 2013, March 31, 2012, March 31, 2011, and March 31, 2010 (none of which are presented herein), and we expressed unqualified opinions on those consolidated financial statements. In our opinion, the information set forth in the senior securities table of the Selected Consolidated Financial Data of Gladstone Investment Corporation and its subsidiaries for each of the ten years in the period ended March 31, 2019, appearing on pages 43-44 in Part II, Item 5 of this Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/**s**/ PricewaterhouseCoopers LLP
McLean, VA
May 13, 2019