

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2020

OR

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

For the transition period from _____ to _____

Commission file number: 814-00704

GLADSTONE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

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

1521 WESTBRANCH DRIVE, SUITE 100
MCLEAN, VIRGINIA
(Address of principal executive offices)

22102
(Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year,
if changed since last report)
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	The Nasdaq Stock Market LLC
6.250% Series D Cumulative Term Preferred Stock, \$0.001 par value per share	GAINM	The Nasdaq Stock Market LLC
6.375% Series E Cumulative Term Preferred Stock, \$0.001 par value per share	GAINL	The Nasdaq Stock Market LLC

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 Exchange Act). Yes No

The number of shares of the issuer's Common Stock, \$0.001 par value per share, outstanding as of February 1, 2021 was 33,205,023.

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

	<u>December 31,</u>	<u>March 31,</u>
	<u>2020</u>	<u>2020</u>
ASSETS		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of \$292,968 and \$276,589, respectively)	\$ 290,136	\$292,129
Affiliate investments (Cost of \$340,401 and \$311,481, respectively)	289,421	247,637
Control investments (Cost of \$24,512 and \$21,512, respectively)	31,331	26,158
Cash and cash equivalents	1,794	2,778
Restricted cash and cash equivalents	866	1,282
Interest receivable	1,775	3,429
Due from administrative agent	4,379	771
Deferred financing costs, net	586	991
Other assets, net	1,414	1,202
TOTAL ASSETS	\$ 621,702	\$576,377
LIABILITIES		
Borrowings:		
Line of credit at fair value (Cost of \$84,000 and \$49,200, respectively)	\$ 84,000	\$ 49,200
Secured borrowing	5,096	5,096
Total borrowings	89,096	54,296
Mandatorily redeemable preferred stock, \$0.001 par value per share, \$25.00 liquidation preference per share; 8,990,000 and 6,500,000 shares authorized; 6,074,853 and 5,290,000 shares issued and outstanding, respectively, net	148,753	129,160
Accounts payable and accrued expenses	1,239	1,222
Fees due to Adviser(A)	11,871	7,178
Fee due to Administrator(A)	462	582
Other liabilities	1,458	14,908
TOTAL LIABILITIES	\$ 252,879	\$207,346
Commitments and contingencies(B)		
NET ASSETS	\$ 368,823	\$369,031
ANALYSIS OF NET ASSETS		
Common stock, \$0.001 par value per share, 100,000,000 shares authorized, 33,205,023 and 33,049,463 shares issued and outstanding, respectively	\$ 33	\$ 33
Capital in excess of par value	401,755	401,023
Cumulative net unrealized depreciation of investments	(46,993)	(43,658)
Underdistributed net investment income	3,622	6,370
Accumulated net realized gain in excess of distributions	10,406	5,263
Total distributable earnings	(32,965)	(32,025)
TOTAL NET ASSETS	\$ 368,823	\$369,031
NET ASSET VALUE PER SHARE AT END OF PERIOD	\$ 11.11	\$ 11.17

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

(B) Refer to Note 10 — *Commitments and Contingencies* in the accompanying *Notes to Consolidated Financial Statements* for additional information.

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

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

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2020	2019	2020	2019
INVESTMENT INCOME				
Interest income				
Non-Control/Non-Affiliate investments	\$ 6,804	\$ 7,234	\$ 19,782	\$ 19,710
Affiliate investments	5,123	4,668	14,087	17,751
Control investments	220	211	639	639
Cash and cash equivalents	1	13	5	44
Total interest income	<u>12,148</u>	<u>12,126</u>	<u>34,513</u>	<u>38,144</u>
Dividend income				
Non-Control/Non-Affiliate investments	908	3,622	908	6,349
Affiliate investments	4,127	—	4,127	3,080
Total dividend income	<u>5,035</u>	<u>3,622</u>	<u>5,035</u>	<u>9,429</u>
Success fee income				
Non-Control/Non-Affiliate investments	189	248	371	248
Affiliate investments	—	—	—	2,121
Total success fee income	<u>189</u>	<u>248</u>	<u>371</u>	<u>2,369</u>
Total investment income	<u>17,372</u>	<u>15,996</u>	<u>39,919</u>	<u>49,942</u>
EXPENSES				
Base management fee ^(A)	3,116	2,970	8,961	9,285
Loan servicing fee ^(A)	1,786	1,794	5,242	5,139
Incentive fee ^(A)	3,756	2,873	3,454	6,042
Administration fee ^(A)	382	369	1,218	1,106
Interest expense on borrowings	1,092	964	3,064	3,230
Dividends on mandatorily redeemable preferred stock	2,291	2,089	6,551	6,269
Amortization of deferred financing costs and discounts	451	373	1,291	1,119
Professional fees	322	384	1,147	1,355
Other general and administrative expenses	496	633	2,031	2,587
Expenses before credits from Adviser	<u>13,692</u>	<u>12,449</u>	<u>32,959</u>	<u>36,132</u>
Credits to base management fee – loan servicing fee ^(A)	(1,786)	(1,794)	(5,242)	(5,139)
Credits to fees from Adviser—other ^(A)	(789)	(817)	(2,594)	(2,647)
Total expenses, net of credits to fees	<u>11,117</u>	<u>9,838</u>	<u>25,123</u>	<u>28,346</u>
NET INVESTMENT INCOME	<u>6,255</u>	<u>6,158</u>	<u>14,796</u>	<u>21,596</u>
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss):				
Non-Control/Non-Affiliate investments	5,816	33,509	5,876	34,830
Affiliate investments	3,289	496	4,603	20,852
Total net realized gain	<u>9,105</u>	<u>34,005</u>	<u>10,479</u>	<u>55,682</u>
Net unrealized appreciation (depreciation):				
Non-Control/Non-Affiliate investments	(5,358)	(29,063)	(18,372)	(21,598)
Affiliate investments	4,894	(4,513)	12,864	(30,631)
Control investments	375	6,577	2,173	5,329
Other	—	154	—	(10)
Total net unrealized depreciation	<u>(89)</u>	<u>(26,845)</u>	<u>(3,335)</u>	<u>(46,910)</u>
Net realized and unrealized gain (loss)	<u>9,016</u>	<u>7,160</u>	<u>7,144</u>	<u>8,772</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$15,271</u>	<u>\$ 13,318</u>	<u>\$ 21,940</u>	<u>\$ 30,368</u>

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

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	\$ 0.19	\$ 0.19	\$ 0.45	\$ 0.66
Net increase in net assets resulting from operations	\$ 0.46	\$ 0.41	\$ 0.66	\$ 0.93
WEIGHTED-AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic and diluted	33,205,023	32,822,459	33,167,511	32,822,459

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(IN THOUSANDS)
(UNAUDITED)

	2020	2019
NET ASSETS, MARCH 31	\$369,031	\$407,110
OPERATIONS		
Net investment income	4,173	8,855
Net realized gain on investments	753	533
Net unrealized depreciation of investments	(4,887)	(3,047)
Net unrealized appreciation of other	—	(295)
Net increase in net assets from operations	<u>39</u>	<u>6,046</u>
DISTRIBUTIONS(A)		
Distributions to common stockholders from net investment income (\$0.28 and \$0.20 per share, respectively)	(9,272)	(6,523)
Distributions to common stockholders from net realized gains \$0.02 and \$0.09 per share, respectively)	(666)	(3,127)
Net decrease in net assets from distributions	<u>(9,938)</u>	<u>(9,650)</u>
CAPITAL ACTIVITY		
Issuance of common stock	1,772	—
Discounts, commissions, and offering costs for issuance of common stock	(35)	—
Net increase in net assets from capital activity	<u>1,737</u>	<u>—</u>
NET DECREASE IN NET ASSETS	(8,162)	(3,604)
NET ASSETS, JUNE 30	\$360,869	\$403,506
OPERATIONS		
Net investment income	4,368	6,583
Net realized gain on investments	621	21,144
Net unrealized appreciation (depreciation) of investments	1,641	(16,854)
Net unrealized depreciation of other	—	131
Net increase in net assets from operations	<u>6,630</u>	<u>11,004</u>
DISTRIBUTIONS(A)		
Distributions to common stockholders from net investment income (\$0.20 and \$0.16 per share, respectively)	(6,553)	(5,236)
Distributions to common stockholders from net realized gains \$0.01 and \$0.07 per share, respectively)	(420)	(2,444)
Net decrease in net assets from distributions	<u>(6,973)</u>	<u>(7,680)</u>
NET (DECREASE) INCREASE IN NET ASSETS	(343)	3,324
NET ASSETS, SEPTEMBER 30	\$360,526	\$406,830
OPERATIONS		
Net investment income	\$ 6,255	\$ 6,158
Net realized gain on investments	9,105	34,005
Net unrealized depreciation of investments	(89)	(26,999)
Net unrealized depreciation of other	—	154
Net increase in net assets from operations	<u>15,271</u>	<u>13,318</u>
DISTRIBUTIONS(A)		
Distributions to common stockholders from net investment income (\$0.20 and \$0.20 per share, respectively)	(6,619)	(6,533)
Distributions to common stockholders from realized gains \$0.01 and \$0.09 per share, respectively)	(355)	(3,117)
Net decrease in net assets from distributions	<u>(6,974)</u>	<u>(9,650)</u>
NET INCREASE IN NET ASSETS	8,297	3,668
NET ASSETS, DECEMBER 31	\$368,823	\$410,498

(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)
(UNAUDITED)

	Nine Months Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	\$ 21,940	\$ 30,368
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Purchase of investments	(89,571)	(95,304)
Principal repayments of investments	20,734	79,216
Net proceeds from the sale of investments	30,515	87,781
Net realized gain on investments	(10,479)	(55,682)
Net unrealized depreciation of investments	3,335	46,900
Net unrealized appreciation of other	—	10
Amortization of premiums, discounts, and acquisition costs, net	(14)	(14)
Amortization of deferred financing costs and discounts	1,291	1,119
Bad debt expense, net of recoveries	61	311
Changes in assets and liabilities:		
Decrease in interest receivable	1,610	158
Increase in due from administrative agent	(3,608)	(1,176)
Decrease (increase) in other assets, net	1	(373)
Increase in accounts payable and accrued expenses	17	1,163
Increase in fees due to Adviser ^(A)	4,663	1,655
(Decrease) increase in fee due to Administrator ^(A)	(120)	138
Decrease in other liabilities	(12,934)	(9,934)
Net cash (used in) provided by operating activities	<u>(32,559)</u>	<u>86,336</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	1,772	—
Discounts, commissions, and offering costs for issuance of common stock	(31)	—
Proceeds from line of credit	111,700	131,400
Repayments on line of credit	(76,900)	(180,200)
Proceeds from issuance of mandatorily redeemable preferred stock	19,276	—
Deferred financing and offering costs	(773)	(133)
Distributions paid to common stockholders	(23,885)	(26,980)
Net cash provided by (used in) financing activities	<u>31,159</u>	<u>(75,913)</u>
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS	<u>(1,400)</u>	<u>10,423</u>
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>4,060</u>	<u>3,605</u>
CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND RESTRICTED CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 2,660</u>	<u>\$ 14,028</u>
CASH PAID FOR INTEREST	<u>\$ 2,370</u>	<u>\$ 2,204</u>

(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 SCHEDULE OF INVESTMENTS
DECEMBER 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company and Investment(A)(B)(D)(E)	Principal/Shares/ Units(F)(G)	Cost	Fair Value
NON-CONTROL/NON-AFFILIATE INVESTMENTS(N) – 78.8%			
Secured First Lien Debt – 49.6%			
Diversified/Conglomerate Manufacturing – 1.2%			
Phoenix Door Systems, Inc. – Line of Credit, \$200 available (L+7.0%, 9.0% Cash (0.3% Unused Fee), Due 3/2022)(L)	\$ 950	\$ 950	\$ 950
Phoenix Door Systems, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 9/2024)(L)	3,200	3,200	3,200
		4,150	4,150
Diversified/Conglomerate Services – 30.5%			
Bassett Creek Services, Inc. – Term Debt (L+10.0%, 12.0% Cash, Due 4/2023)(K)	37,500	37,500	36,141
Counsel Press, Inc. – Term Debt (L+11.8%, 12.8% Cash, Due 3/2023)(L)	18,000	18,000	18,000
Counsel Press, Inc. – Term Debt (L+13.0%, 14.0% Cash, Due 3/2023)(L)	5,500	5,500	5,500
Horizon Facilities Services, Inc. – Term Debt (L+9.5%, 12.0% Cash, Due 6/2024)(G)(L)	27,700	27,700	27,700
Mason West, LLC – Line of Credit, \$3,000 available (L+8.0%, 10.0% Cash, Due 7/2021)(L)	—	—	—
Mason West, LLC – Term Debt (L+10.0%, 12.5% Cash, Due 7/2025)(L)	25,250	25,250	25,250
		113,950	112,591
Healthcare, Education, and Childcare – 5.4%			
Educators Resource, Inc. – Term Debt (L+10.5%, 13.0% Cash, Due 11/2023)(L)	20,000	20,000	20,000
Home and Office Furnishings, Housewares, and Durable Consumer Products – 6.7%			
Brunswick Bowling Products, Inc. – Term Debt (L+10.0%, 12.0% Cash, Due 1/2023)(L)	17,700	17,700	17,700
Brunswick Bowling Products, Inc. – Term Debt (L+10.0%, 12.0% Cash, Due 1/2023)(L)	6,850	6,850	6,850
		24,550	24,550
Leisure, Amusement, Motion Pictures, and Entertainment – 5.8%			
Schylling, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 8/2024)(L)	13,081	13,081	13,081
Schylling, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 8/2024)(L)	8,500	8,500	8,500
		21,581	21,581
Total Secured First Lien Debt		\$ 184,231	\$ 182,872
Secured Second Lien Debt – 11.4%			
Automobile – 1.1%			
Country Club Enterprises, LLC – Term Debt (L+8.0%, 10.0% Cash, Due 2/2022)(K)	\$ 4,000	\$ 4,000	\$ 3,880
Country Club Enterprises, LLC – Guaranty (\$1,000)(T)	—	—	—
		4,000	3,880
Cargo Transport – 3.5%			
Diligent Delivery Systems – Term Debt (L+9.0%, 11.0% Cash, Due 11/2022)(Q)	13,000	12,965	13,000
Home and Office Furnishings, Housewares, and Durable Consumer Products – 3.6%			
Ginsey Home Solutions, Inc. – Term Debt (L+10.0%, 13.5% Cash, Due 1/2025)(H)(L)	13,300	13,300	13,300
Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 3.2%			
SBS Industries Holdings, Inc. – Term Debt (L+12.0%, 14.0% Cash, Due 11/2024)(L)	11,736	11,736	11,736
Total Secured Second Lien Debt		\$ 42,001	\$ 41,916

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
DECEMBER 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company and Investment(A)(B)(D)(E)	Principal/Shares/ Units(F)(J)	Cost	Fair Value
Preferred Equity – 17.0%			
Diversified/Conglomerate Services – 8.8%			
Bassett Creek Services, Inc. – Preferred Stock(C)(L)	\$ 4,900	\$ 4,900	\$ —
Counsel Press, Inc. – Preferred Stock(C)(L)	6,995	6,995	18,744
Horizon Facilities Services, Inc. – Preferred Stock(C)(L)	10,080	10,080	2,194
Mason West, LLC – Preferred Stock(C)(L)	11,206	11,206	11,360
		<u>33,181</u>	<u>32,298</u>
Healthcare, Education, and Childcare – 2.4%			
Educators Resource, Inc. – Preferred Stock(C)(L)	8,560	8,560	8,898
Home and Office Furnishings, Housewares, and Durable Consumer Products – 3.9%			
Brunswick Bowling Products, Inc. – Preferred Stock(C)(L)	6,653	6,653	3,509
Ginsey Home Solutions, Inc. – Preferred Stock(C)(L)	19,280	9,583	10,570
		<u>16,236</u>	<u>14,079</u>
Leisure, Amusement, Motion Pictures, and Entertainment – 1.5%			
Schylling, Inc. – Preferred Stock(C)(L)	4,000	4,000	5,401
Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 0.4%			
SBS Industries Holdings, Inc. – Preferred Stock(C)(L)	27,705	2,771	1,580
Total Preferred Equity		<u>\$ 64,748</u>	<u>\$ 62,256</u>
Common Equity/Equivalents – 0.8%			
Cargo Transport – 0.7%			
Diligent Delivery Systems – Common Stock Warrants(C)(L)(Q)	8%	\$ 500	\$ 2,738
Diversified/Conglomerate Manufacturing – 0.1%			
Phoenix Door Systems, Inc. – Common Stock(C)(L)	2,515	1,200	269
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 Holdings, Inc. – Common Stock(C)(L)	221,500	222	—
Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.0%			
Funko Acquisition Holdings, LLC(M) – Common Units(C)(S)	12,180	58	85
Total Common Equity/Equivalents		<u>\$ 1,988</u>	<u>\$ 3,092</u>
Total Non-Control/Non-Affiliate Investments		<u>\$292,968</u>	<u>\$290,136</u>

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
DECEMBER 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

<u>Company and Investment(A)(B)(D)(E)</u>	<u>Principal/Shares/ Units(F)(J)</u>	<u>Cost</u>	<u>Fair Value</u>
AFFILIATE INVESTMENTS(O) – 78.5%			
Secured First Lien Debt – 48.6%			
Beverage, Food, and Tobacco – 2.5%			
Head Country, Inc. – Term Debt (L+10.5%, 12.5% Cash, Due 2/2021)(L)	\$ 9,050	\$ 9,050	\$ 9,050
Chemicals, Plastics, and Rubber – 5.7%			
PSI Molded Plastics, Inc. – Term Debt (L+5.5%, 7.0% Cash, Due 1/2024)(G)(L)	26,618	26,618	20,981
Diversified/Conglomerate Manufacturing – 5.6%			
D.P.M.S., Inc. – Line of Credit, \$250 available (L+6.5%, 9.0% Cash (0.5% Unused Fee), Due 10/2021)(L)	1,250	1,250	1,250
D.P.M.S., Inc. – Term Debt (10.0% Cash, Due 10/2023)(I)(L)	10,796	10,796	6,354
Edge Adhesives Holdings, Inc.(M) – Line of Credit, \$0 available (L+8.0%, 10.0% Cash, Due 9/2021)(K)	1,020	1,020	992
Edge Adhesives Holdings, Inc.(M) – Term Debt (L+10.5%, 12.5% Cash, Due 2/2022)(K)	9,300	9,300	9,044
Edge Adhesives Holdings, Inc.(M) – Term Debt (L+11.8%, 13.8% Cash, Due 2/2022)(K)	3,000	3,000	2,918
		<u>25,366</u>	<u>20,558</u>
Diversified/Conglomerate Services – 13.7%			
ImageWorks Display and Marketing Group, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 11/2022)(L)	22,000	22,000	22,000
The Maids International, LLC – Line of Credit, \$1,000 available (L+7.5%, 9.5% Cash (0.3% Unused Fee), Due 3/2021)(L)	—	—	—
The Maids International, LLC – Term Debt (L+10.5%, 12.0% Cash, Due 3/2025)(L)	28,560	28,560	28,560
		<u>50,560</u>	<u>50,560</u>
Home and Office Furnishings, Housewares, and Durable Consumer Products – 7.3%			
Old World Christmas – Secured First Lien Term Loan (L+9.5%, 11.0% Cash, Due 12/2025)(L)	27,000	27,000	27,000
Leisure, Amusement, Motion Pictures, and Entertainment – 2.4%			
SOG Specialty Knives & Tools, LLC – Term Debt (Due 12/2023)(L)(R)	538	538	538
SOG Specialty Knives & Tools, LLC – Term Debt (L+4.0%, 6.0% Cash, Due 12/2023)(G)(L)	8,399	8,399	8,399
		<u>8,937</u>	<u>8,937</u>
Personal and Non-Durable Consumer Products (Manufacturing Only) – 7.2%			
The Mountain Corporation – Line of Credit, \$0 available (L+5.0%, 9.0% Cash, Due 4/2021)(G)(L)	3,400	3,400	3,400
Pioneer Square Brands, Inc. – Term Debt (L+12.0%, 13.0% Cash, Due 8/2022)(L)	23,100	23,100	23,100
		<u>26,500</u>	<u>26,500</u>
Telecommunications – 4.2%			
B+T Group Acquisition, Inc.(M) – Line of Credit, \$0 available (L+11.0%, 13.0% Cash, Due 12/2021)(G)(K)	2,800	2,800	2,569
B+T Group Acquisition, Inc.(M) – Term Debt (L+11.0%, 13.0% Cash, Due 12/2021)(G)(K)	14,000	14,000	12,845
		<u>16,800</u>	<u>15,414</u>
Total Secured First Lien Debt		<u>\$190,831</u>	<u>\$179,000</u>

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
DECEMBER 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company and Investment(A)(B)(D)(E)	Principal/Shares/ Units(F)(J)	Cost	Fair Value
Secured Second Lien Debt – 13.1%			
Diversified/Conglomerate Services – 12.5%			
J.R. Hobbs Co. – Atlanta, LLC – Line of Credit, \$0 available (L+6.0%, 8.0% Cash, Due 10/2024)(L)	\$ 10,000	\$10,000	\$10,000
J.R. Hobbs Co. – Atlanta, LLC – Term Debt (L+10.3%, 11.8% Cash, Due 10/2024)(L)	36,000	36,000	36,000
		<u>46,000</u>	<u>46,000</u>
Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.6%			
The Mountain Corporation – Term Debt (L+4.0%, 7.0% Cash, Due 4/2024)(G)(L)	11,700	11,700	2,349
The Mountain Corporation – Delayed Draw Term Debt, \$1,000 available (L+4.0%, 7.0% Cash, Due 4/2024)(G)(L)	500	500	100
		<u>12,200</u>	<u>2,449</u>
Total Secured Second Lien Debt		<u>\$58,200</u>	<u>\$48,449</u>
Preferred Equity – 16.8%			
Beverage, Food, and Tobacco – 1.4%			
Head Country, Inc. – Preferred Stock(C)(L)	4,000	\$ 4,000	\$ 5,258
Chemicals, Plastics, and Rubber – 0.0%			
PSI Molded Plastics, Inc. – Preferred Stock(C)(L)	158,598	19,730	—
Diversified/Conglomerate Manufacturing – 0.0%			
Channel Technologies Group, LLC – Preferred Stock(C)(L)	2,279	1,841	—
Edge Adhesives Holdings, Inc.(M) – Preferred Stock(C)(L)	8,199	8,199	—
		<u>10,040</u>	<u>—</u>
Diversified/Conglomerate Services – 3.4%			
ImageWorks Display and Marketing Group, Inc. – Preferred Stock(C)(L)	67,490	6,749	6,953
J.R. Hobbs Co. – Atlanta, LLC – Preferred Stock(C)(L)	10,920	10,920	—
The Maids International, LLC – Preferred Stock(C)(L)	6,640	6,640	5,568
		<u>24,309</u>	<u>12,521</u>
Home and Office Furnishings, Housewares, and Durable Consumer Products – 3.6%			
Old World Christmas, Inc. – Preferred Stock(C)(L)	6,180	—	13,445
Leisure, Amusement, Motion Pictures, and Entertainment – 1.2%			
SOG Specialty Knives & Tools, LLC – Preferred Stock(C)(L)	14,949	14,949	4,354
Personal and Non-Durable Consumer Products (Manufacturing Only) – 7.2%			
The Mountain Corporation – Preferred Stock(C)(L)	6,899	6,899	—
Pioneer Square Brands, Inc. – Preferred Stock(C)(L)	5,502	5,500	26,394
		<u>12,399</u>	<u>26,394</u>
Telecommunications – 0.0%			
B+T Group Acquisition, Inc.(M) – Preferred Stock(C)(L)	14,304	4,722	—
Total Preferred Equity		<u>\$90,149</u>	<u>\$61,972</u>

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
DECEMBER 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

Company and Investment(A)(B)(D)(E)	Principal/Shares/ Units(F)(J)	Cost	Fair Value
Common Equity/Equivalents – 0.0%			
Diversified/Conglomerate Manufacturing – 0.0%			
Channel Technologies Group, LLC – Common Stock(C)(L)	2,319,184	\$ —	\$ —
D.P.M.S., Inc. – Common Stock(C)(L)	627	1	—
		<u>1</u>	<u>—</u>
Diversified/Conglomerate Services – 0.0%			
Nth Degree Investment Group, LLC – Common Stock(C)(L)	14,360,000	1,219	—
Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.0%			
The Mountain Corporation – Common Stock(C)(L)	751	1	—
Telecommunications – 0.0%			
B+T Group Acquisition, Inc.(M) – Common Stock Warrant(C)(L)	3.5%	—	—
Total Common Equity/Equivalents		<u>\$ 1,221</u>	<u>\$ —</u>
Total Affiliate Investments		<u>\$340,401</u>	<u>\$289,421</u>
CONTROL INVESTMENTS(P) – 8.6%:			
Secured Second Lien Debt – 3.6%			
Aerospace and Defense – 3.6%			
Galaxy Technologies, Inc. – Line of Credit, \$0 available (L+4.5%, 6.5% Cash (0.5% Unused Fee), Due 8/2023)(L)	\$ 5,000	\$ 5,000	\$ 5,000
Galaxy Technologies, Inc. – Term Debt (L+6.0%, 10.0% Cash, Due 8/2023)(L)	8,000	8,000	8,000
		<u>\$ 13,000</u>	<u>\$ 13,000</u>
Preferred Equity – 5.0%			
Aerospace and Defense – 5.0%			
Galaxy Technologies, Inc. – Preferred Stock(C)(L)	5,517,444	\$ 11,464	\$ 18,331
Common Equity – 0.0%			
Aerospace and Defense – 0.0%			
Galaxy Technologies, Inc. – Common Stock(C)(L)	88,843	\$ 48	\$ —
Total Control Investments		<u>\$ 24,512</u>	<u>\$ 31,331</u>
TOTAL INVESTMENTS – 165.9%		<u>\$657,881</u>	<u>\$610,888</u>

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
DECEMBER 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED)

- (A) Certain of the securities listed are issued by affiliate(s) of the indicated portfolio company. The majority of the securities listed, totaling \$507.2 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 December 31, 2020, our investment in Funko Acquisition Holdings, LLC (“Funko”) was considered a non-qualifying asset under Section 55 of the 1940 Act and represented 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 0.1% as of December 31, 2020. 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 December 31, 2020.
- (E) Unless indicated otherwise, all of our investments are valued using Level 3 inputs within the Financial Accounting Standards Board (“FASB”) 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 December 31, 2020.
- (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. 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 into 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 Global Select Market under the trading symbol “FNKO.” Refer to Note 3 — *Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.
- (T) Refer to Note 10 — *Commitments and Contingencies* in the accompanying *Notes to Consolidated Financial Statements* for additional information regarding this guaranty.

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
MARCH 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)

<u>Company and Investment(A)(B)(D)(E)</u>	<u>Principal/Shares/ Units(F)(G)</u>	<u>Cost</u>	<u>Fair Value</u>
NON-CONTROL/NON-AFFILIATE INVESTMENTS(N) – 79.4%			
Secured First Lien Debt – 46.8%			
Containers, Packaging, and Glass – 2.6%			
Frontier Packaging, Inc. – Term Debt (L+10.0%, 12.0% Cash, Due 3/2021)(L)	\$ 9,500	\$ 9,500	\$ 9,500
Diversified/Conglomerate Manufacturing – 1.0%			
Phoenix Door Systems, Inc – Line of Credit, \$380 available (L+7.0%, 9.0% Cash (0.3% Unused Fee), Due 3/2021)(L)	370	370	370
Phoenix Door Systems, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 9/2024)(L)	3,200	3,200	3,200
		<u>3,570</u>	<u>3,570</u>
Diversified/Conglomerate Services – 24.1%			
Bassett Creek Services, Inc. – Term Debt (L+10.0%, 12.0% Cash, Due 4/2023)(L)	37,500	37,500	37,500
Counsel Press, Inc. – Term Debt (L+11.8%, 12.8% Cash, Due 3/2023)(L)	18,000	18,000	18,000
Counsel Press, Inc. – Term Debt (L+13.0%, 14.0% Cash, Due 3/2023)(L)	5,500	5,500	5,500
Horizon Facilities Services, Inc. – Term Debt (L+9.5%, 12.0% Cash, Due 6/2024)(L)	27,700	27,700	27,700
		<u>88,700</u>	<u>88,700</u>
Healthcare, Education, and Childcare – 5.4%			
Educators Resource, Inc. – Term Debt (L+10.5%, 13.0% Cash, Due 11/2023)(L)	20,000	20,000	20,000
Home and Office Furnishings, Housewares, and Durable Consumer Products – 4.8%			
Brunswick Bowling Products, Inc. – Term Debt (L+10.0%, 12.0% Cash, Due 1/2023)(L)	17,700	17,700	17,700
Leisure, Amusement, Motion Pictures, and Entertainment – 5.8%			
Schylling, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 8/2024)(L)	13,081	13,081	13,081
Schylling, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 8/2024)(L)	8,500	8,500	8,500
		<u>21,581</u>	<u>21,581</u>
Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 3.1%			
SBS Industries Holdings, Inc. – Term Debt (L+12.0%, 14.0% Cash, Due 11/2024)(L)	11,355	11,355	11,355
Total Secured First Lien Debt		<u>\$172,406</u>	<u>\$172,406</u>
Secured Second Lien Debt – 13.1%			
Automobile – 1.0%			
Country Club Enterprises, LLC – Term Debt (L+8.0%, 10.0% Cash, Due 2/2022)(K)	\$ 4,000	\$ 4,000	\$ 3,600
Country Club Enterprises, LLC – Guaranty (\$1,000)(U)	—	—	—
		<u>4,000</u>	<u>3,600</u>
Cargo Transport – 3.4%			
Diligent Delivery Systems – Term Debt (L+9.0%, 11.0% Cash, Due 11/2022)(K)	13,000	12,951	12,545
Home and Office Furnishings, Housewares, and Durable Consumer Products – 5.5%			
Brunswick Bowling Products, Inc. – Term Debt (L+10.0%, 12.0% Cash, Due 1/2023)(L)	6,850	6,850	6,850
Ginsey Home Solutions, Inc. – Term Debt (L+10.0%, 13.5% Cash, Due 1/2021)(H)(L)	13,300	13,300	13,300
		<u>20,150</u>	<u>20,150</u>
Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 3.2%			
SBS Industries Holdings, Inc. – Term Debt (L+12.0%, 14.0% Cash, Due 11/2024)(L)	11,736	11,736	11,736
Total Secured Second Lien Debt		<u>\$ 48,837</u>	<u>\$ 48,031</u>

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)

Company and Investment(A)(B)(D)(E)	Principal/Shares/ Units(F)(J)	Cost	Fair Value
Preferred Equity – 16.5%			
Containers, Packaging, and Glass – 0.4%			
Frontier Packaging, Inc. – Preferred Stock(C)(L)	1,373	\$ 1,373	\$ 1,400
Diversified/Conglomerate Services – 6.3%			
Bassett Creek Services, Inc. – Preferred Stock(C)(L)	4,900	4,900	—
Counsel Press, Inc. – Preferred Stock(C)(L)	6,995	6,995	20,593
Horizon Facilities Services, Inc. – Preferred Stock(C)(L)	10,080	10,080	2,699
		<u>21,975</u>	<u>23,292</u>
Healthcare, Education, and Childcare – 1.5%			
Educators Resource, Inc. – Preferred Stock(C)(L)	8,560	8,560	5,563
Home and Office Furnishings, Housewares, and Durable Consumer Products – 7.1%			
Brunswick Bowling Products, Inc. – Preferred Stock(C)(L)	4,943	4,943	19,848
Ginsey Home Solutions, Inc. – Preferred Stock(C)(L)	19,280	9,583	6,419
		<u>14,526</u>	<u>26,267</u>
Leisure, Amusement, Motion Pictures, and Entertainment – 1.2%			
Schylling, Inc. – Preferred Stock(C)(L)	4,000	4,000	4,332
Machinery (Non-Agriculture, Non-Construction, and Non-Electronic) – 0.0%			
SBS Industries Holdings, Inc. – Preferred Stock(C)(L)	27,705	2,771	—
Total Preferred Equity		<u>\$ 53,205</u>	<u>\$ 60,854</u>
Common Equity/Equivalents – 3.0%			
Cargo Transport – 0.2%			
Diligent Delivery Systems – Common Stock Warrants(C)(L)	8%	\$ 500	\$ 771
Containers, Packaging, and Glass – 2.6%			
Frontier Packaging, Inc. – Common Stock(C)(L)	152	152	9,460
Diversified/Conglomerate Manufacturing – 0.2%			
Phoenix Door Systems, Inc. – Common Stock(C)(L)	2,515	1,200	574
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 Holdings, Inc. – Common Stock(C)(L)	221,500	222	—
Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.0%			
Funko Acquisition Holdings, LLC(M) – Common Units(C)(S)	12,180	59	33
Total Common Equity/Equivalents		<u>\$ 2,141</u>	<u>\$ 10,838</u>
Total Non-Control/Non-Affiliate Investments		<u>\$276,589</u>	<u>\$292,129</u>

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)

Company and Investment(A)(B)(D)(E)	Principal/Shares/ Units(F)(G)	Cost	Fair Value
AFFILIATE INVESTMENTS(O) – 67.0%			
Secured First Lien Debt – 36.8%			
Beverage, Food, and Tobacco – 2.5%			
Head Country, Inc. – Term Debt (L+10.5%, 12.5% Cash, Due 2/2021)(L)	\$ 9,050	\$ 9,050	\$ 9,050
Diversified/Conglomerate Manufacturing – 6.4%			
D.P.M.S., Inc. – Line of Credit, \$250 available (L+6.5%, 9.0% Cash (0.5% Unused Fee), Due 10/2021)(L)	1,250	1,250	1,250
D.P.M.S., Inc. – Term Debt (10.0% Cash, Due 10/2021)(L)	10,796	10,796	10,796
Edge Adhesives Holdings, Inc.(M) – Line of Credit, \$600 available (L+8.0%, 10.0% Cash, Due 5/2020)(K)	420	420	395
Edge Adhesives Holdings, Inc.(M) – Term Debt (L+10.5%, 12.5% Cash, Due 2/2022)(K)	9,300	9,300	8,742
Edge Adhesives Holdings, Inc.(M) – Term Debt (L+11.8%, 13.8% Cash, Due 2/2022)(K)	3,000	3,000	2,820
		<u>24,766</u>	<u>24,003</u>
Diversified/Conglomerate Services – 14.0%			
ImageWorks Display and Marketing Group, Inc. – Term Debt (L+11.0%, 13.0% Cash, Due 11/2022)(L)	22,000	22,000	22,000
The Maids International, LLC – Line of Credit, \$0 available (L+7.5%, 9.5% Cash (0.3% Unused Fee), Due 3/2021)(L)	1,000	1,000	1,000
The Maids International, LLC – Term Debt (L+10.5%, 12.0% Cash, Due 3/2025)(L)	28,560	28,560	28,560
		<u>51,560</u>	<u>51,560</u>
Leisure, Amusement, Motion Pictures, and Entertainment – 2.4%			
SOG Specialty Knives & Tools, LLC – Term Debt (Due 8/2020)(L)(R)	538	538	538
SOG Specialty Knives & Tools, LLC – Term Debt (L+4.0%, 6.0% Cash, Due 8/2022)(G)(L)	8,399	8,399	8,399
		<u>8,937</u>	<u>8,937</u>
Personal and Non-Durable Consumer Products (Manufacturing Only) – 7.2%			
The Mountain Corporation – Line of Credit, \$0 available (L+5.0%, 9.0% Cash, Due 4/2021)(L)	3,400	3,400	3,400
Pioneer Square Brands, Inc. – Term Debt (L+12.0%, 13.0% Cash, Due 8/2022)(L)	23,100	23,100	23,100
		<u>26,500</u>	<u>26,500</u>
Telecommunications – 4.3%			
B+T Group Acquisition, Inc.(M) – Line of Credit, \$0 available (L+11.0%, 13.0% Cash, Due 12/2021)(G)(K)	2,800	2,800	2,632
B+T Group Acquisition, Inc.(M) – Term Debt (L+11.0%, 13.0% Cash, Due 12/2021)(G)(K)	14,000	14,000	13,160
		<u>16,800</u>	<u>15,792</u>
Total Secured First Lien Debt		<u>\$137,613</u>	<u>\$135,842</u>

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)

Company and Investment(A)(B)(D)(E)	Principal/Shares/ Units(F)(J)	Cost	Fair Value
Secured Second Lien Debt – 17.7%			
Chemicals, Plastics, and Rubber – 4.5%			
PSI Molded Plastics, Inc. – Term Debt (L+12.0%, 13.5% Cash, Due 1/2024)(G)(L)	\$ 26,618	\$26,618	\$16,737
Diversified/Conglomerate Services – 12.5%			
J.R. Hobbs Co. – Atlanta, LLC – Line of Credit, \$0 available (L+6.0%, 8.0% Cash, Due 10/2024)(L)	10,000	10,000	10,000
J.R. Hobbs Co. – Atlanta, LLC – Term Debt (L+10.3%, 11.8% Cash, Due 10/2024)(L)	36,000	36,000	36,000
		46,000	46,000
Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.7%			
The Mountain Corporation – Term Debt (L+4.0%, 7.0% Cash, Due 4/2024)(G)(L)	11,700	11,700	2,572
Total Secured Second Lien Debt		\$84,318	\$65,309
Preferred Equity – 11.5%			
Beverage, Food, and Tobacco – 0.9%			
Head Country, Inc. – Preferred Stock(C)(L)	4,000	\$ 4,000	\$ 3,495
Chemicals, Plastics, and Rubber – 0.0%			
PSI Molded Plastics, Inc. – Preferred Stock(C)(L)	78,598	11,730	—
Diversified/Conglomerate Manufacturing – 0.0%			
Channel Technologies Group, LLC – Preferred Stock(C)(L)	2,279	1,841	—
Edge Adhesives Holdings, Inc.(M) – Preferred Stock(C)(L)	8,199	8,199	—
		10,040	—
Diversified/Conglomerate Services – 3.6%			
ImageWorks Display and Marketing Group, Inc. – Preferred Stock(C)(L)	67,490	6,749	8,265
J.R. Hobbs Co. – Atlanta, LLC – Preferred Stock(C)(L)	10,920	10,920	—
The Maids International, LLC – Preferred Stock(C)(L)	6,640	6,640	5,339
		24,309	13,604
Home and Office Furnishings, Housewares, and Durable Consumer Products – 5.3%			
Old World Christmas, Inc. – Preferred Stock(C)(L)	6,180	6,180	19,588
Leisure, Amusement, Motion Pictures, and Entertainment – 0.1%			
SOG Specialty Knives & Tools, LLC – Preferred Stock(C)(L)	14,949	14,949	390
Personal and Non-Durable Consumer Products (Manufacturing Only) – 1.6%			
The Mountain Corporation – Preferred Stock(C)(L)	6,899	6,899	—
Pioneer Square Brands, Inc. – Preferred Stock(C)(L)	5,502	5,500	5,760
		12,399	5,760
Telecommunications – 0.0%			
B+T Group Acquisition, Inc.(M) – Preferred Stock(C)(L)	14,304	4,722	—
Total Preferred Equity		\$88,329	\$42,837

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS)

Company and Investment(A)(B)(D)(E)	Principal/Shares/ Units(F)(J)	Cost	Fair Value
Common Equity/Equivalents – 1.0%			
Diversified/Conglomerate Manufacturing – 0.0%			
Channel Technologies Group, LLC – Common Stock(C)(L)	2,319,184	\$ —	\$ —
D.P.M.S., Inc. – Common Stock(C)(L)	627	1	—
		<u>1</u>	<u>—</u>
Diversified/Conglomerate Services – 1.0%			
Nth Degree Investment Group, LLC – Common Stock(C)(L)	14,360,000	1,219	3,649
Personal and Non-Durable Consumer Products (Manufacturing Only) – 0.0%			
The Mountain Corporation – Common Stock(C)(L)	751	1	—
Telecommunications – 0.0%			
B+T Group Acquisition, Inc.(M) – Common Stock Warrants(C)(L)	3.5%	—	—
Total Common Equity/Equivalents		\$ 1,221	\$ 3,649
Total Affiliate Investments		<u>\$311,481</u>	<u>\$247,637</u>
CONTROL INVESTMENTS(P) – 7.2%:			
Secured Second Lien Debt – 2.8%			
Aerospace and Defense – 2.8%			
Galaxy Tool Holding Corporation – Line of Credit, \$0 available (L+4.5%, 6.5% Cash (1.0% Unused Fee), Due 8/2021)(L)	\$ 5,000	\$ 5,000	\$ 5,000
Galaxy Tool Holding Corporation – Term Debt (L+6.0%, 10.0% Cash, Due 8/2021)(L)	5,000	5,000	5,000
		<u>\$ 10,000</u>	<u>\$ 10,000</u>
Preferred Equity – 4.4%			
Aerospace and Defense – 4.4%			
Galaxy Tool Holding Corporation – Preferred Stock(C)(L)	5,517,444	\$ 11,464	\$ 16,158
Common Equity – 0.0%			
Aerospace and Defense – 0.0%			
Galaxy Tool Holding Corporation – Common Stock(C)(L)	88,843	\$ 48	\$ —
Total Control Investments		<u>\$ 21,512</u>	<u>\$ 26,158</u>
TOTAL INVESTMENTS – 153.6%(V)		<u>\$609,582</u>	<u>\$565,924</u>

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

GLADSTONE INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)
MARCH 31, 2020
(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 \$496.4 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 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, 2020, our investment in Funko was considered a non-qualifying asset under Section 55 of the 1940 Act and represented less than 0.1% of total investments, at fair value.
- (B) Unless indicated otherwise, all cash interest rates are indexed to 30-day LIBOR, which was 1.0% as of March 31, 2020. 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, 2020.
- (E) Unless indicated otherwise, all of our investments are valued using Level 3 inputs within the 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, 2020.
- (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. 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) Reserved.
- (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 into 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 Global Select Market under the trading symbol "FNKO." Refer to Note 3—*Investments* in the accompanying *Notes to Consolidated Financial Statements* for additional information.
- (T) Reserved.
- (U) Refer to Note 10—*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 \$105.3 million; cumulative gross unrealized appreciation for federal income tax purposes is \$60.7 million. Cumulative net unrealized depreciation is \$44.6 million, based on a tax cost of \$610.5 million.

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

GLADSTONE INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA AND AS OTHERWISE INDICATED)
(UNAUDITED)

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 12 — *Unconsolidated Significant Subsidiaries* for additional information regarding our unconsolidated significant subsidiaries.

We are externally managed by Gladstone Management Corporation (the “Adviser”), an affiliate of ours and an SEC-registered investment adviser, pursuant to an investment advisory 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

Unaudited Interim Financial Statements and Basis of Presentation

We prepare our interim financial statements in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6, 10 and 12 of SEC Regulation S-X. Accordingly, we have not included in this quarterly report all of the information and notes required by GAAP for annual financial statements. The accompanying *Consolidated Financial Statements* include our accounts and those of our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. In accordance with Article 6 of Regulation S-X, we do not consolidate portfolio company investments. Under the investment company rules and regulations pursuant to the American Institute of Certified Public Accountants (“AICPA”) Audit and Accounting Guide for Investment Companies, codified in ASC 946, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries. In our opinion, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The results of operations for the three and nine months ended December 31, 2020 are not necessarily indicative of results that ultimately may be achieved for the fiscal year ending March 31, 2021 or any future interim period. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended March 31, 2020, as filed with the SEC on May 12, 2020.

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.

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 (“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”), 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 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.

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 December 31, 2020, our loans to B+T Group Acquisition, Inc. ("B+T"), Horizon Facilities Services, Inc. ("Horizon"), The Mountain Corporation ("The Mountain"), PSI Molded Plastics, Inc. ("PSI Molded") and SOG Specialty Knives & Tools, LLC ("SOG") were on non-accrual status, with an aggregate debt cost basis of \$95.1 million, or 19.5% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of \$78.3 million, or 16.8% of the fair value of all debt investments in our portfolio. As of March 31, 2020, certain of our loans to B+T, The Mountain, PSI Molded, and SOG were on non-accrual status, with an aggregate debt cost basis of \$63.5 million, or 14.0% of the cost basis of all debt investments in our portfolio, and an aggregate fair value of \$43.5 million, or 10.1% 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 December 31, 2020 and March 31, 2020, 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.

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.

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. ASU 2018-13 was effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted, and we adopted ASU 2018-13 effective April 1, 2020. The adoption of ASU 2018-13 did not have a material impact on our financial position, results of operations or cash flows.

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 those in 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 December 31, 2020 and March 31, 2020, 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 nine months ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and March 31, 2020, our investments, by security type, at fair value were categorized as follows within the ASC 820 fair value hierarchy:

	Fair Value	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2020:				
Secured first lien debt	\$361,872	\$ —	\$ —	\$ 361,872
Secured second lien debt	103,365	—	—	103,365
Preferred equity	142,559	—	—	142,559
Common equity/equivalents	3,092	—	85 ^(A)	3,007
Total Investments as of December 31, 2020	<u>\$610,888</u>	<u>\$ —</u>	<u>\$ 85</u>	<u>\$ 610,803</u>

	Fair Value	Fair Value Measurements		
		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, 2020:				
Secured first lien debt	\$308,248	\$ —	\$ —	\$ 308,248
Secured second lien debt	123,340	—	—	123,340
Preferred equity	119,849	—	—	119,849
Common equity/equivalents	14,487	—	33 ^(A)	14,454
Total Investments as of March 31, 2020	<u>\$565,924</u>	<u>\$ —</u>	<u>\$ 33</u>	<u>\$ 565,891</u>

(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.

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 December 31, 2020 and March 31, 2020, by caption on our accompanying *Consolidated Statements of Assets and Liabilities*, and by security type:

	Total Recurring Fair Value Measurements Reported in <i>Consolidated Statements of Assets and Liabilities</i> Valued Using Level 3 Inputs	
	December 31, 2020	March 31, 2020
Non-Control/Non-Affiliate Investments		
Secured first lien debt	\$ 182,872	\$ 172,406
Secured second lien debt	41,916	48,031
Preferred equity	62,256	60,854
Common equity/equivalents ^(A)	3,007	10,805
Total Non-Control/Non-Affiliate Investments	290,051	292,096
Affiliate Investments		
Secured first lien debt	179,000	135,842
Secured second lien debt	48,449	65,309
Preferred equity	61,972	42,837
Common equity/equivalents	—	3,649
Total Affiliate Investments	289,421	247,637
Control Investments		
Secured first lien debt	—	—
Secured second lien debt	13,000	10,000
Preferred equity	18,331	16,158
Common equity/equivalents	—	—
Total Control Investments	31,331	26,158
Total investments at fair value using Level 3 inputs	\$ 610,803	\$ 565,891

(A) Excludes our investment in Funko with a fair value of \$85 and \$33 as of December 31, 2020 and March 31, 2020, 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 December 31, 2020 and March 31, 2020. 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	
	December 31, 2020	March 31, 2020			December 31, 2020	March 31, 2020
Secured first lien debt	\$ 297,363	\$280,499	TEV	EBITDA multiple	4.1x – 8.0x / 6.3x	4.2x – 8.1x / 6.2x
				EBITDA	\$1,372 – \$16,727 / \$7,038	\$1,372 – \$13,042 / \$5,894
				Revenue multiple	0.6x – 0.7x / 0.7x	0.3x – 0.7x / 0.5x
				Revenue	\$14,635 – \$28,167 / \$24,438	\$14,343 – \$24,060 / \$18,141
				Discount Rate	21.0% – 21.0% / 21.0%	—
	64,509	27,749	Yield Analysis	Discount Rate	13.9% – 21.7% / 14.4%	16.2% – 18.7% / 16.8%
Secured second lien debt(A)	99,485	107,195	TEV	EBITDA multiple	5.1x – 6.3x / 5.4x	5.1x – 6.2x / 5.6x
				EBITDA	\$5,041 – \$10,000 / \$7,848	\$4,459 – \$13,042 / \$7,444
				Revenue multiple	0.7x – 0.7x / 0.7x	0.7x – 0.7x / 0.7x
				Revenue	\$14,635 – \$14,635 / \$14,635	\$15,267 – \$15,267 / \$15,267
	3,880	16,145	Yield Analysis	Discount Rate	13.0% – 13.0% / 13.0%	12.6% – 16.4% / 13.5%
Preferred equity	142,559	119,849	TEV	EBITDA multiple	4.5x – 8.0x / 6.1x	5.1x – 8.1x / 6.1x
				EBITDA	\$1,363 – \$16,727 / \$6,332	\$356 – \$13,042 / \$5,596
				Revenue multiple	0.6x – 0.7x / 0.7x	0.6x – 0.7x / 0.6x
				Revenue	\$14,635 – \$28,167 / \$23,894	\$15,267 – \$24,060 / \$21,283
				Discount Rate	21.0% – 21.0% / 21.0%	—
Common equity/equivalents(B) (C)	3,007	14,454	TEV	EBITDA multiple	4.1x – 6.7x / 5.5x	4.2x – 7.4x / 5.9x
				EBITDA	\$1,372 – \$8,498 / \$4,985	\$1,372 – \$16,061 / \$9,258
				Revenue multiple	0.7x – 0.7x / 0.7x	0.7x – 0.7x / 0.7x
				Revenue	\$14,635 – \$14,635 / \$14,635	\$15,267 – \$15,267 / \$15,267
Total	\$ 610,803	\$565,891				

- (A) Fair value as of December 31, 2020 includes one proprietary debt investment with a fair value of \$13.0 million, which was valued at the expected payoff amount as the unobservable input.
- (B) Fair value as of December 31, 2020 includes one proprietary equity investment with a fair value of \$2.7 million, which was valued at the expected payoff amount as the unobservable input.
- (C) Fair value as of both December 31, 2020 and March 31, 2020 excludes our investment in Funko with a fair value of \$85 and \$33, 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 three and nine months ended December 31, 2020 and 2019 for all investments for which the Adviser determines fair value using unobservable (Level 3) inputs.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Secured First Lien Debt	Secured Second Lien Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three Months ended December 31, 2020:					
Fair value as of September 30, 2020	\$356,496	\$ 100,076	\$140,076	\$ 12,266	\$608,914
Total gain (loss):					
Net realized gain (loss)(A)	(8,470)	—	3,292	14,030	8,852
Net unrealized appreciation (depreciation)(B)	(700)	84	9,680	2,678	11,742
Reversal of previously recorded (appreciation) depreciation upon realization(B)	—	—	(84)	(11,785)	(11,869)
New investments, repayments and settlements(C):					
Issuances / originations	27,280	3,205	1,709	—	32,194
Settlements / repayments	(12,734)	—	—	—	(12,734)
Sales	—	—	(12,114)	(14,182)	(26,296)
Transfers(D)	—	—	—	—	—
Fair value as of December 31, 2020	\$361,872	\$ 103,365	\$142,559	\$ 3,007	\$610,803

	Secured First Lien Debt	Secured Second Lien Debt	Preferred Equity	Common Equity/ Equivalents	Total
Nine Months ended December 31, 2020:					
Fair value as of March 31, 2020	\$308,248	\$ 123,340	\$119,849	\$ 14,454	\$565,891
Total gain (loss):					
Net realized gain (loss)(A)	(8,470)	—	3,292	14,144	8,966
Net unrealized appreciation (depreciation)(B)	(1,915)	474	9,432	490	8,481
Reversal of previously recorded (appreciation) depreciation upon realization(B)	—	—	(84)	(11,785)	(11,869)
New investments, repayments and settlements(C):					
Issuances / originations	60,779	3,515	25,290	—	89,584
Settlements / repayments	(20,734)	—	—	—	(20,734)
Sales	—	—	(15,220)	(14,296)	(29,516)
Transfers(D)	23,964	(23,964)	—	—	—
Fair value as of December 31, 2020	\$361,872	\$ 103,365	\$142,559	\$ 3,007	\$610,803

	Secured First Lien Debt	Secured Second Lien Debt	Preferred Equity	Common Equity/ Equivalents	Total
Three Months ended December 31, 2019:					
Fair value as of September 30, 2019	\$300,864	\$106,744	\$183,531	\$ 17,027	\$608,166
Total gain (loss):					
Net realized gain (loss)(A)	—	—	33,710	(300)	33,410
Net unrealized appreciation (depreciation)(B)	(395)	(2,994)	4,621	(2,056)	(824)
Reversal of previously recorded (appreciation) depreciation upon realization(B)	—	—	(26,447)	300	(26,147)
New investments, repayments and settlements(C):					
Issuances / originations	2,215	19,988	1,726	—	23,929
Settlements / repayments	(15,290)	(10,000)	—	—	(25,290)
Sales	—	—	(52,550)	—	(52,550)
Transfers(D)	(8,602)	8,602	(12,434)	12,434	—
Fair value as of December 31, 2019	\$278,792	\$122,340	\$132,157	\$ 27,405	\$560,694

	Secured First Lien Debt	Secured Second Lien Debt	Preferred Equity	Common Equity/ Equivalents	Total
Nine Months ended December 31, 2019:					
Fair value as of March 31, 2019	\$331,090	\$ 75,293	\$195,377	\$ 22,011	\$623,771
Total gain (loss):					
Net realized gain (loss)(A)	—	—	35,243	18,995	54,238
Net unrealized appreciation (depreciation)(B)	(2,095)	(4,319)	(4,746)	4,395	(6,765)
Reversal of previously recorded (appreciation) depreciation upon realization(B)	—	67	(28,568)	(11,448)	(39,949)
New investments, repayments and settlements(C):					
Issuances / originations	55,315	24,997	13,806	1,200	95,318
Settlements / repayments	(55,916)	(23,300)	—	—	(79,216)
Sales	—	—	(66,521)	(20,182)	(86,703)
Transfers(D)	(49,602)	49,602	(12,434)	12,434	—
Fair value as of December 31, 2019	<u>\$278,792</u>	<u>\$122,340</u>	<u>\$132,157</u>	<u>\$ 27,405</u>	<u>\$560,694</u>

- (A) Included in net realized gain (loss) on investments on our accompanying *Consolidated Statements of Operations* for the respective periods ended December 31, 2020 and 2019.
- (B) Included in net unrealized appreciation (depreciation) of investments on our accompanying *Consolidated Statements of Operations* for the respective periods ended December 31, 2020 and 2019.
- (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) 2020: Transfers represent (1) secured second lien debt of Brunswick Bowling Products, Inc. with a total cost basis and fair value of \$6.9 million, which was converted into secured first lien debt during the three months ended June 30, 2020 and (2) secured second lien debt of PSI Molded, with a total cost basis and fair value of \$26.6 million and \$17.1 million, respectively, which was converted into secured first lien debt during the three months ended September 30, 2020.
2019: Transfers represent (1) secured first lien debt of B-Dry, LLC with a cost basis of \$11.9 million and a fair value of \$0, which was converted into equity during the three months ended June 30, 2019, (2) secured first lien debt of J.R. Hobbs Co. – Atlanta, LLC, with a total cost basis and fair value of \$41.0 million, which was converted into secured second lien debt during the three months ended September 30, 2019, (3) secured first lien debt of SBS Investment Holdings, Inc., with a total cost basis and fair value of \$8.6 million, that was converted to secured second lien debt during the three months ended December 31, 2019 and (4) preferred equity of Nth Degree, Inc. with a cost basis of \$1.2 million and fair value of \$12.4 million, that was converted to common equity in Nth Degree Investment Group, LLC during the three months ended December 31, 2019.

Investment Activity

During the nine months ended December 31, 2020, the following significant transactions occurred:

- In July 2020, we invested \$46.9 million in Mason West, LLC (“Mason West”) through a combination of secured first lien debt and preferred equity. Mason West, headquartered in Placentia, California, is a provider of engineered seismic restraint and vibration isolation solutions. In September 2020, Mason West repaid \$7.0 million of secured first lien debt and redeemed \$3.1 million of preferred equity.
- In September 2020, we invested an additional \$8.0 million in PSI Molded in the form of preferred equity and also amended certain terms of our existing debt.
- In December 2020, we recapitalized our investment in Old World Christmas, Inc. (“Old World”) and invested an additional \$27.0 million in the form of secured first lien debt. In connection with this investment, Old World paid dividend income of \$3.2 million and additional equity proceeds of \$10.8 million, resulting in a \$7.5 million return of preferred equity cost basis and a realized gain of \$3.3 million.
- In December 2020, we invested an additional \$3.0 million in Galaxy Technologies, Inc. (“Galaxy”) in the form of secured second lien debt. In connection with this investment, Galaxy purchased SBS Industries, LLC (a subsidiary of SBS Industries Holdings, Inc., one of our other portfolio companies). SBS Industries Holdings, Inc. used proceeds from the sale to partially repay our \$11.4 million first lien debt, resulting in a realized loss of \$8.5 million.
- In December 2020, we sold our investment in Frontier Packaging, Inc., which resulted in dividend income of \$0.9 million, success fee income of \$0.2 million, and a realized gain of \$14.0 million. In connection with the sale, we received net cash proceeds of \$26.0 million, including the repayment of our debt investment of \$9.5 million at par.

Investment Concentrations

As of December 31, 2020, our investment portfolio consisted of investments in 28 portfolio companies located in 17 states across 13 different industries with an aggregate fair value of \$610.9 million. Our investments in Pioneer Square Brands, Inc., J.R. Hobbs Co. – Atlanta, LLC, Counsel Press, Inc., Old World, and Mason West represented our five largest portfolio investments at fair value as of December 31, 2020, and collectively comprised \$214.8 million, or 35.1%, of our total investment portfolio at fair value.

The following table summarizes our investments by security type as of December 31, 2020 and March 31, 2020:

	December 31, 2020				March 31, 2020			
	Cost		Fair Value		Cost		Fair Value	
Secured first lien debt	\$375,062	57.0%	\$361,872	59.2%	\$310,019	50.9%	\$308,248	54.5%
Secured second lien debt	113,201	17.2	103,365	16.9	143,155	23.5	123,340	21.8
Total debt	488,263	74.2	465,237	76.1	453,174	74.4	431,588	76.3
Preferred equity	166,361	25.3	142,559	23.3	152,998	25.1	119,849	21.2
Common equity/equivalents	3,257	0.5	3,092	0.6	3,410	0.5	14,487	2.5
Total equity/equivalents	169,618	25.8	145,651	23.9	156,408	25.6	134,336	23.7
Total investments	\$657,881	100.0%	\$610,888	100.0%	\$609,582	100.0%	\$565,924	100.0%

Investments at fair value consisted of the following industry classifications as of December 31, 2020 and March 31, 2020:

	December 31, 2020		March 31, 2020	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Diversified/Conglomerate Services	\$253,969	41.6%	\$226,805	40.1%
Home and Office Furnishings, Housewares, and Durable Consumer Products	92,374	15.1	83,705	14.8
Personal and Non-Durable Consumer Products (Manufacturing Only)	55,429	9.1	34,865	6.2
Leisure, Amusement, Motion Pictures, and Entertainment	40,274	6.6	35,240	6.2
Aerospace and Defense	31,331	5.1	26,158	4.6
Healthcare, Education, and Childcare	28,898	4.7	25,563	4.5
Diversified/Conglomerate Manufacturing	24,976	4.1	28,147	5.0
Chemicals, Plastics, and Rubber	20,981	3.4	16,737	3.0
Cargo Transport	15,738	2.6	13,316	2.4
Telecommunications	15,414	2.5	15,792	2.8
Beverage, Food, and Tobacco	14,308	2.3	12,545	2.2
Machinery (Non-agriculture, Non-construction, and Non-electronic)	13,316	2.2	23,091	4.1
Containers, Packaging, and Glass	—	—	20,360	3.6
Other < 2.0%	3,880	0.7	3,600	0.5
Total investments	\$610,888	100.0%	\$565,924	100.0%

Investments at fair value were included in the following geographic regions of the U.S. as of December 31, 2020 and March 31, 2020:

Location	December 31, 2020		March 31, 2020	
	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
South	\$ 175,580	28.7%	\$ 182,178	32.2%
Northeast	153,700	25.2	146,434	25.9
West	147,530	24.2	90,214	15.9
Midwest	134,078	21.9	147,098	26.0
Total investments	\$ 610,888	100.0%	\$ 565,924	100.0%

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

Investment Principal Repayments

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of December 31, 2020:

		<u>Amount</u>
For the remaining three months ending March 31:	2021	\$ 9,050
For the fiscal years ending March 31:	2022	39,720
	2023	106,150
	2024	116,851
	2025	164,277
	Thereafter	52,250
	Total contractual repayments	\$ 488,298
	Adjustments to cost basis of debt investments	(35)
	Investments in equity securities	169,618
	Total cost basis of investments held as of December 31, 2020:	<u>\$ 657,881</u>

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 December 31, 2020 and March 31, 2020, we had gross receivables from portfolio companies of \$1.3 million and \$1.4 million, respectively. As of each of December 31, 2020 and March 31, 2020, the allowance for uncollectible receivables was \$0.9 million.

NOTE 4. RELATED PARTY TRANSACTIONS

Transactions with the Adviser

We pay the Adviser certain fees as compensation for its services under the Advisory Agreement, consisting of a base management fee and an incentive fee and a loan servicing fee for the Adviser's role as servicer pursuant to the Credit Facility, all as described below. On July 14, 2020, 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, 2021.

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 the executive vice president of private equity (buyouts) of the Adviser. Michael LiCalsi, our general counsel and secretary (who also serves as the Administrator's president, general counsel and secretary), is also the executive vice president of administration of our 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*.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
Average total assets subject to base management fee ^(A)	\$623,200	\$594,000	\$597,400	\$619,000
Multiplied by prorated annual base management fee of 2.0%	0.5%	0.5%	1.5%	1.5%
Base management fee^(B)	3,116	2,970	8,961	9,285
Credits to fees from Adviser—other ^(B)	(789)	(817)	(2,594)	(2,647)
Net base management fee	\$ 2,327	\$ 2,153	\$ 6,367	\$ 6,638
Loan servicing fee^(B)	1,786	1,794	5,242	5,139
Credits to base management fee—loan servicing fee ^(B)	(1,786)	(1,794)	(5,242)	(5,139)
Net loan servicing fee	\$ —	\$ —	\$ —	\$ —
Incentive fee – income-based	\$ 2,002	\$ 1,515	\$ 2,002	\$ 4,338
Incentive fee – capital gains-based^(C)	1,754	1,358	1,452	1,704
Total incentive fee^(B)	\$ 3,756	\$ 2,873	\$ 3,454	\$ 6,042
Credits to fees from Adviser—other ^(B)	—	—	—	—
Net total incentive fee	\$ 3,756	\$ 2,873	\$ 3,454	\$ 6,042

- (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 fees are recorded in accordance with GAAP and do not necessarily reflect amounts 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) taking 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, totaling \$48 and \$0.1 million for the three and nine months ended December 31, 2020, respectively, and \$0.1 million and \$0.2 million for the three and nine months ended December 31, 2019, 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. As of December 31, 2020, no capital gains-based incentive fees were contractually due to the Adviser. During the year ended March 31, 2020, capital gains-based incentive fees of \$8.1 million were contractually due and paid to the Adviser.

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 capital gains-based incentive fees accrued 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 and prior period accruals are reversed, as appropriate. During the three and nine months ended December 31, 2020, we recorded capital gains-based incentive fees of \$1.8 million and \$1.5 million, respectively. During the three and nine months ended December 31, 2019, we recorded capital gains-based incentive fees of \$1.4 million and \$1.7 million, respectively.

Transactions with the Administrator

We reimburse 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, 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. Another of our officers, Mr. LiCalsi (our general counsel & secretary), serves as the Administrator's president as well as the executive vice president of administration for the Adviser.

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 14, 2020, 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, 2021.

Transactions with Gladstone Securities, LLC

Gladstone Securities, LLC (“Gladstone Securities”) is a privately held broker dealer registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation. Gladstone Securities is an affiliate of ours, as its parent company is 100% owned and controlled by David Gladstone, our chairman and chief executive officer. Mr. Gladstone also serves on the board of managers of Gladstone Securities.

Dealer Manager Agreement

On May 22, 2020, the Company, entered into a dealer manager agreement (the “Dealer Manager Agreement”), with Gladstone Securities whereby Gladstone Securities will serve as the Company’s exclusive dealer manager in connection with the Company’s offering (the “Offering”) of up to \$350.0 million aggregate principal amount of the Company’s 6.00% Notes due 2040 (the “Notes”) on a “reasonable best efforts” basis.

Under the Dealer Manager Agreement, Gladstone Securities will provide certain sales, promotional and marketing services to the Company in connection with the Offering, and the Company will pay (i) selling commissions of up to 6.0% of the gross proceeds from sales of the Notes in the Offering and (ii) a dealer manager fee of up to 3.0% of the gross proceeds from sales of the Notes in the Offering (the “Dealer Manager Fee”). Gladstone Securities may, in its sole discretion, reallocate a portion of the Dealer Manager Fee to participating broker-dealers in support of the Offering. During the nine months ended December 31, 2020, no Notes were sold and there were no selling commissions or Dealer Manager Fee incurred pursuant to the Dealer Manager Agreement.

Other Transactions

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. During the three and nine months ended December 31, 2020, the fees received by Gladstone Securities from portfolio companies totaled \$0.3 million and \$0.6 million, respectively. During the three and nine months ended December 31, 2019, the fees received by Gladstone Securities from portfolio companies totaled \$0.1 million and \$0.5 million, respectively.

Related Party Fees Due

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

	<u>As of December 31,</u> <u>2020</u>	<u>As of March 31,</u> <u>2020</u>
Base management and loan servicing fee due to Adviser, net of credits	\$ 987	\$ (222)
Incentive fee due to Adviser ^(A)	10,841	7,387
Other due to Adviser	43	13
Total fees due to Adviser	\$ 11,871	\$ 7,178
Fee due to Administrator	\$ 462	\$ 582
Total related party fees due	\$ 12,333	\$ 7,760

(A) Includes a capital gains-based incentive fee of \$8.8 million and \$7.4 million, respectively, recorded in accordance with GAAP requirements, and which was not contractually due under the terms of the Advisory Agreement as of December 31, 2020 and March 31, 2020. Refer to Note 4 — *Related Party Transactions — Transactions with the Adviser — Incentive Fee* for additional information, including capital gains-based incentive fee payments made.

Net expenses receivable from Gladstone Capital Corporation, one of our affiliated funds, for reimbursement purposes, which includes certain co-investment expenses, totaled \$40 and \$70 as of December 31, 2020 and March 31, 2020, 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 December 31, 2020 and March 31, 2020, 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). 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.

On August 10, 2020, we, through Business Investment, entered into Amendment No. 5 to the Credit Facility. Among other things, Amendment No. 5 amends the Credit Facility to (i) add London Interbank Offered Rate (“LIBOR”) replacement language; (ii) implement a 0.5% LIBOR floor; (iii) reduce the facility size from \$200.0 million to \$180.0 million, which may be expanded to \$300.0 million through additional commitments; and (iv) provide certain other changes to existing terms and covenants. In addition, Amendment No. 5 provides for certain temporary changes during the COVID-19 Relief Period (which began on August 10, 2020 and ends on March 31, 2021, and which may be extended, subject to certain conditions) including: (i) amending the definition of “Effective Advance Rate,” provided that during such period the overall effective advance rate does not exceed 55%; and (ii) removing or changing certain “Excess Concentration Limits” (as defined in the Credit Facility).

Advances under the Credit Facility generally bear interest at 30-day LIBOR, subject to a floor of 0.5%, 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 December 31, 2020		As of March 31, 2020	
Commitment amount	\$ 180,000		\$ 200,000	
Borrowings outstanding at cost	84,000		49,200	
Availability(A)	96,000		150,800	

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2020	2019	2020	2019
Weighted-average borrowings outstanding	\$ 104,829	\$ 37,507	\$ 88,652	\$ 45,777
Effective interest rate(B)	3.8%	9.3%	4.2%	8.6%
Commitment (unused) fees incurred	\$ 95	\$ 414	\$ 585	\$ 1,176

(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 \$96.0 million and \$137.6 million as of December 31, 2020 and March 31, 2020, respectively.

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

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 \$231.0 million as of December 31, 2020, (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 December 31, 2020, and as defined in the performance guaranty of the Credit Facility, we had a net worth of \$517.0 million, asset coverage on our senior securities representing indebtedness of 671.0%, 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 December 31, 2020, we were in compliance with all covenants under the Credit Facility.

Notes Offering

In May 2020, we entered into a Dealer Manager Agreement with our affiliated dealer manager, Gladstone Securities, under which we may sell a maximum of \$350.0 million aggregate principal amount of our 6.00% notes due 2040. However, the Company can only offer for sale up to \$200.0 million aggregate principal amount of the Notes pursuant to a prospectus supplement dated May 22, 2020 and a base prospectus dated July 24, 2019 relating to the registration statement on Form N-2 (File No. 333- 232124) under the Securities Act of 1933, as amended.

The Notes will mature on November 1, 2040. We will pay interest on the Notes on the first day of each month, commencing on the first day of the month following the issuance of such Note. Subject to certain limitations, holders of the Notes will have the option to tender their Notes for redemption at a redemption price of \$22.50 per Note until the earlier of the date upon which our Board of Directors, by resolution, suspends or terminates the optional redemption right of the holders or the date, if any, on which the Notes are listed on Nasdaq Global Select Market or another national securities exchange. In addition, we will repurchase the Notes, upon request, in the event of the holder's death at a redemption price of \$25.00 per Note. Except upon the occurrence of certain events that would constitute a change in control of us or to comply with applicable law, we may not redeem the Notes at our option until the later of (1) the one-year anniversary of the termination of the offering of the Notes and (2) July 1, 2025. After such date, we may, at our sole option, redeem all or a portion of the Notes at a redemption price of \$25.00 per Note. The Notes will be our direct unsecured obligations and rank equal in right of payment with all outstanding and future unsecured, unsubordinated indebtedness issued by us. As of December 31, 2020, no Notes have been issued.

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, 2025.

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. As of December 31, 2020, the discount rate used to determine the fair value of the Credit Facility was 30-day LIBOR, with a 0.5% floor, plus 2.85% per annum, plus an unused commitment fee of 0.75%. As of March 31, 2020, 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%. 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. As of each of December 31, 2020 and March 31, 2020, 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 December 31, 2020 and March 31, 2020, and for the three and nine months ended December 31, 2020 and 2019, 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)	
	December 31, 2020	March 31, 2020
Credit Facility	\$ 84,000	\$ 49,200

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

	Credit Facility
Three Months Ended December 31, 2020:	
Fair value at September 30, 2020	\$ 116,600
Borrowings	30,200
Repayments	(62,800)
Unrealized depreciation	—
Fair value at December 31, 2020	<u>\$ 84,000</u>
Nine Months Ended December 31, 2020:	
Fair value at March 31, 2020	\$ 49,200
Borrowings	111,700
Repayments	(76,900)
Unrealized depreciation	—
Fair value at December 31, 2020	<u>\$ 84,000</u>

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

	Credit Facility
Three Months Ended December 31, 2019:	
Fair value at September 30, 2019	\$ 46,964
Borrowings	31,400
Repayments	(74,000)
Unrealized depreciation	(154)
Fair value at December 31, 2019	<u>\$ 4,210</u>
Nine Months Ended December 31, 2019:	
Fair value at March 31, 2019	\$ 53,000
Borrowings	131,400
Repayments	(180,200)
Unrealized appreciation	10
Fair value at December 31, 2019	<u>\$ 4,210</u>

The fair value of the collateral under the Credit Facility was \$507.2 million and \$496.4 million as of December 31, 2020 and March 31, 2020, respectively.

NOTE 6. MANDATORILY REDEEMABLE PREFERRED STOCK

Preferred Stock Offerings

In May 2020, we entered into sales agreements with Wedbush Securities, Inc. and Virtu Americas LLC (each a “Series E ATM Sales Agent”), under which we have the ability to issue and sell shares of our 6.375% Series E Cumulative Term Preferred Stock (our “Series E Term Preferred Stock” or “Series E”), from time to time, through the Series E ATM Sales Agents, up to \$50.0 million aggregate liquidation preference in an “at-the-market” program (the “Series E ATM Program”). As of December 31, 2020, we had remaining capacity to sell up to \$30.4 million of our Series E Term Preferred Stock under the Series E ATM Program.

During the nine months ended December 31, 2020, we sold 784,853 shares of our Series E Term Preferred Stock under the Series E ATM Program with an aggregate liquidation preference of \$19.6 million. The weighted-average gross price per share net of discounts was \$24.56 and resulted in gross proceeds of approximately \$19.3 million. After deducting commissions and offering costs borne by us, net proceeds totaled approximately \$19.1 million.

The following tables summarize our 6.250% Series D Cumulative Term Preferred Stock (our “Series D Term Preferred Stock” or “Series D”) and our Series E Term Preferred Stock outstanding as of December 31, 2020 and March 31, 2020:

As of December 31, 2020:

<u>Class of Term Preferred Stock</u>	<u>Ticker Symbol</u>	<u>Date Issued</u>	<u>Mandatory Redemption Date(A)</u>	<u>Interest Rate</u>	<u>Shares Outstanding</u>	<u>Liquidation Preference per Share</u>	<u>Aggregate Liquidation Preference</u>
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%	3,774,853	25.00	94,371
Term preferred stock, gross(A)					6,074,853	\$ 25.00	\$ 151,871
Less: Discounts							(3,118)
Term preferred stock, net(B)							\$ 148,753

As of March 31, 2020:

<u>Class of Term Preferred Stock</u>	<u>Ticker Symbol</u>	<u>Date Issued</u>	<u>Mandatory Redemption Date(A)</u>	<u>Interest Rate</u>	<u>Shares Outstanding</u>	<u>Liquidation Preference per Share</u>	<u>Aggregate Liquidation Preference</u>
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(A)					5,290,000	\$ 25.00	\$ 132,250
Less: Discounts							(3,090)
Term preferred stock, net(B)							\$ 129,160

(A) As of December 31, 2020, the Series D Term Preferred Stock and the Series E Term Preferred Stock are redeemable at any time. As of December 31, 2020 and March 31, 2020, asset coverage on our senior securities that are stock, calculated pursuant to Sections 18 and 61 of the 1940 Act, was 250.3% and 293.8%, respectively.

(B) 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 nine months ended December 31, 2020 and 2019:

For the Nine Months Ended December 31, 2020:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Dividend per Share of Series D Term Preferred Stock</u>	<u>Dividend per Share of Series E Term Preferred Stock</u>
April 14, 2020	April 24, 2020	April 30, 2020	\$ 0.13020833	\$ 0.13281250
April 14, 2020	May 19, 2020	May 29, 2020	0.13020833	0.13281250
April 14, 2020	June 19, 2020	June 30, 2020	0.13020833	0.13281250
July 14, 2020	July 24, 2020	July 31, 2020	0.13020833	0.13281250
July 14, 2020	August 24, 2020	August 31, 2020	0.13020833	0.13281250
July 14, 2020	September 23, 2020	September 30, 2020	0.13020833	0.13281250
October 13, 2020	October 23, 2020	October 30, 2020	0.13020833	0.13281250
October 13, 2020	November 20, 2020	November 30, 2020	0.13020833	0.13281250
October 13, 2020	December 23, 2020	December 31, 2020	0.13020833	0.13281250
		Total	\$ 1.17187497	\$ 1.19531250

For the Nine Months Ended December 31, 2019:

Declaration Date	Record Date	Payment Date	Dividend per Share of Series D Term Preferred Stock	Dividend per Share of Series E Term Preferred Stock
April 9, 2019	April 22, 2019	April 30, 2019	\$ 0.13020833	\$ 0.13281250
April 9, 2019	May 22, 2019	May 31, 2019	0.13020833	0.13281250
April 9, 2019	June 19, 2019	June 28, 2019	0.13020833	0.13281250
July 9, 2019	July 22, 2019	July 31, 2019	0.13020833	0.13281250
July 9, 2019	August 20, 2019	August 30, 2019	0.13020833	0.13281250
July 9, 2019	September 17, 2019	September 30, 2019	0.13020833	0.13281250
October 8, 2019	October 22, 2019	October 31, 2019	0.13020833	0.13281250
October 8, 2019	November 19, 2019	November 29, 2019	0.13020833	0.13281250
October 8, 2019	December 19, 2019	December 31, 2019	0.13020833	0.13281250
Total			\$ 1.17187497	\$ 1.19531250

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 are 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, 2020 was 42.1% from ordinary income and 57.9% from capital gains. The tax characterization of dividends paid to our preferred stockholders during the calendar year ended December 31, 2019 was 27.3% from ordinary income and 72.7% 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 December 31, 2020 and March 31, 2020. 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 December 31, 2020 and March 31, 2020, each of which we consider to be a Level 1 input within the fair value hierarchy:

	Fair Value as of	
	December 31, 2020	March 31, 2020
Series D Term Preferred Stock	\$ 58,604	\$ 53,590
Series E Term Preferred Stock	95,126	64,554
Total	\$ 153,730	\$ 118,144

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

On June 14, 2019, we filed a registration statement on FormN-2 (File No. 333-232124), which the SEC declared effective on July 24, 2019. 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 December 31, 2020, we had the ability to issue up to \$275.5 million of the securities registered under the registration statement.

Common Equity Offerings

In December 2019, we entered into equity distribution agreements with Wedbush Securities, Inc., Cantor Fitzgerald & Co., and Ladenburg Thalmann & Co., Inc. (each a "Common Stock ATM Sales Agent"), under which we have the ability to issue and sell shares of our common stock, from time to time, through the Common Stock ATM Sales Agents, up to an aggregate offering price of \$35.0 million in an at-the-market program (the "Common Stock ATM Program"). As of December 31, 2020, we had remaining capacity to sell up to \$30.1 million of common stock under the Common Stock ATM Program.

During the three months ended June 30, 2020, we sold 155,560 shares of our common stock under the Common Stock ATM Program at a weighted-average gross price of \$11.39 per share and raised approximately \$1.8 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was \$11.17 and resulted in total net proceeds of approximately \$1.7 million. These sales were above our then current estimated NAV per share. We did not sell any shares of our common stock under the Common Stock ATM Program during the period from June 30, 2020 to December 31, 2020.

During the year ended March 31, 2020, we sold 227,004 shares of our common stock under the Common Stock ATM Program at a weighted-average gross price of \$13.80 per share and raised approximately \$3.1 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was \$13.55 and resulted in total net proceeds of approximately \$3.1 million. These sales were above our then current estimated NAV per share.

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 three and nine months ended December 31, 2020 and 2019:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
Numerator: net increase in net assets resulting from operations	\$ 15,271	\$ 13,318	\$ 21,940	\$ 30,368
Denominator: basic and diluted weighted-average common shares	33,205,023	32,822,459	33,167,511	32,822,459
Basic and diluted net increase in net assets resulting from operations per weighted-average common share	\$ 0.46	\$ 0.41	\$ 0.66	\$ 0.93

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 taxable ordinary income plus the excess of our net short-term capital gains over net long-term capital losses ("Investment Company Taxable Income"). The amount to be paid out as distributions to our stockholders is determined by our Board of Directors and is based upon management's estimate of Investment Company Taxable Income and net long-term capital gains, as well as amounts to be distributed in accordance with Section 855(a) of the Code. Based on that estimate, our Board of Directors declares monthly distributions, and supplemental distributions, as appropriate, to 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 cash 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 cash distributions for the full year. Estimates made on a quarterly basis are updated as of each interim reporting date. The tax characterization of cash distributions paid to our common stockholders during the calendar year ended December 31, 2020 was 93.9% from ordinary income and 6.1% from capital gains. The tax characterization of cash distributions paid to our common stockholders during the calendar year ended December 31, 2019 was 67.8% from ordinary income and 32.2% from capital gains.

We paid the following cash distributions to our common stockholders for the nine months ended December 31, 2020 and 2019:

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Common Share	
2021	April 14, 2020	April 24, 2020	April 30, 2020	\$ 0.070	
	April 14, 2020	May 19, 2020	May 29, 2020	0.070	
	April 14, 2020	June 8, 2020	June 17, 2020	0.090(A)	
	April 14, 2020	June 19, 2020	June 30, 2020	0.070	
	July 14, 2020	July 24, 2020	July 31, 2020	0.070	
	July 14, 2020	August 24, 2020	August 31, 2020	0.070	
	July 14, 2020	September 23, 2020	September 30, 2020	0.070	
	October 13, 2020	October 23, 2020	October 30, 2020	0.070	
	October 13, 2020	November 20, 2020	November 30, 2020	0.070	
	October 13, 2020	December 23, 2020	December 31, 2020	0.070	
	Nine Months Ended December 31, 2020:				\$ 0.720

Fiscal Year	Declaration Date	Record Date	Payment Date	Distribution per Common Share
2020	April 9, 2019	April 22, 2019	April 30, 2019	\$ 0.068
	April 9, 2019	May 22, 2019	May 31, 2019	0.068
	April 9, 2019	June 5, 2019	June 14, 2019	0.090(A)
	April 9, 2019	June 19, 2019	June 28, 2019	0.068
	July 9, 2019	July 22, 2019	July 31, 2019	0.068
	July 9, 2019	August 20, 2019	August 30, 2019	0.068
	July 9, 2019	September 4, 2019	September 13, 2019	0.030(A)
	July 9, 2019	September 17, 2019	September 30, 2019	0.068
	October 8, 2019	October 22, 2019	October 31, 2019	0.068
	October 8, 2019	November 19, 2019	November 29, 2019	0.068
	October 8, 2019	December 3, 2019	December 13, 2019	0.090(A)
	October 8, 2019	December 19, 2019	December 31, 2019	0.068
Nine Months Ended December 31, 2019:				\$ 0.822

(A) Represents a supplemental distribution to common stockholders.

Aggregate cash distributions to our common stockholders declared and paid were \$23.9 million and \$27.0 million for the nine months ended December 31, 2020 and 2019, respectively.

For the fiscal year ended March 31, 2020, Investment Company Taxable Income exceeded distributions declared and paid and, in accordance with Section 855(a) of the Code, we elected to treat \$17.9 million of the first distributions paid subsequent to fiscal year-end, as having been paid in the prior year. In addition, for the fiscal year ended March 31, 2020, net capital gains exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat \$5.3 million of the first distributions paid subsequent to fiscal year-end as having been paid in the prior year.

For the three and nine months ended December 31, 2020, we recorded \$0.4 million and \$1.0 million, respectively, of net adjustments for estimated permanent book-tax differences to reflect tax character, which decreased Capital in excess of par value and Accumulated net realized gain in excess of distributions and increased Underdistributed net investment income for both periods on our accompanying *Consolidated Statements of Assets and Liabilities*.

For the three and nine months ended December 31, 2019, we recorded \$0.1 million and \$1.4 million, respectively, of net adjustments for estimated permanent book-tax differences to reflect tax character, which decreased Capital in excess of par value and Accumulated net realized gain in excess of distributions and increased Underdistributed (Overdistributed) net investment income for both periods on our *Consolidated Statements of Assets and Liabilities*.

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 income 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, 2020, we elected to retain \$38.0 million, or \$1.15 per common share, of long-term capital gains and to treat them as deemed distributions to common stockholders. We incurred \$8.0 million, or \$0.24 per common share, of federal income taxes on behalf of common stockholders, which was included in Taxes on deemed distribution of long-term capital gains on our *Consolidated Statements of Operations* for the year ended March 31, 2020 and in Other liabilities on our accompanying *Consolidated Statements of Assets and Liabilities* as of March 31, 2020 and which was paid during the three months ended June 30, 2020.

In addition, we obtained clarification of the treatment of deemed distributions with respect to Virginia state taxes from the Virginia Department of Revenue, which ruled that Virginia state taxes are imposed. Related to this matter, we previously recorded a \$3.0 million reserve for uncertain tax positions, 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* as of and for the year ended March 31, 2019. During the three months ended June 30, 2020, we reported and paid this amount with an amended Virginia tax return. As a result of the ruling, we also incurred \$2.3 million of Virginia state taxes related to the deemed distribution for the year ended March 31, 2020, which was included in Taxes on deemed distribution of long-term capital gains on our *Consolidated Statements of Operations* for the year ended March 31, 2020 and in Other Liabilities on our accompanying *Consolidated Statements of Assets and Liabilities* as of March 31, 2020 and which was paid during the three months ended September 30, 2020.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are party to certain legal proceedings incidental to the normal course of our business. We are required to establish reserves for litigation matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves. Based on current knowledge, we do not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our financial condition, results of operation or cash flows. Additionally, based on our current knowledge, we do not believe such loss contingencies are both probable and estimable and therefore, as of December 31, 2020 and March 31, 2020, 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 \$1.0 million and \$2.3 million as of December 31, 2020 and March 31, 2020, 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 December 31, 2020 and March 31, 2020 to be immaterial.

We have also extended a guaranty on behalf of one of our portfolio companies. As of December 31, 2020, 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 December 31, 2020 and March 31, 2020 to be immaterial.

As of December 31, 2020, the following guaranty was outstanding:

- A \$1.0 million continuing guaranty of a wholesale financing facility agreement (the "Floor Plan Facility") between DLL Finance LLC (f/k/a Agricredit Acceptance, LLC) and Country Club Enterprises, LLC ("CCE"). The Floor Plan Facility provides CCE with financing to bridge the time and cash flow gap between the order and delivery of golf carts to customers.

The following table summarizes the principal balances of unused line of credit and delayed draw term loan commitments and guaranties as of December 31, 2020 and March 31, 2020, which are not reflected as liabilities in the accompanying *Consolidated Statements of Assets and Liabilities*:

	December 31, 2020	March 31, 2020
Unused line of credit and delayed draw term loan commitments	\$ 5,450	\$ 1,230
Guaranties	1,000	1,000
Total	\$ 6,450	\$ 2,230

NOTE 11. FINANCIAL HIGHLIGHTS

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2020	2019	2020	2019
Per Common Share Data:				
Net asset value at beginning of period ^(A)	\$ 10.86	\$ 12.39	\$ 11.17	\$ 12.40
<i>Income from investment operations</i> ^(B)				
Net investment income	0.19	0.19	0.45	0.66
Net realized gain on investments and other	0.27	1.04	0.31	1.70
Net unrealized depreciation of investments and other	—	(0.82)	(0.10)	(1.43)
Total from investment operations	0.46	0.41	0.66	0.93
<i>Effect of equity capital activity</i> ^(B)				
Cash distributions to common stockholders from net investment income ^(C)	(0.20)	(0.20)	(0.68)	(0.56)
Cash distributions to common stockholders from realized gains ^(C)	(0.01)	(0.09)	(0.04)	(0.26)
Total from equity capital activity	(0.21)	(0.29)	(0.72)	(0.82)
Other, net ^{(B)(E)}	—	—	—	—
Net asset value at end of period ^(A)	\$ 11.11	\$ 12.51	\$ 11.11	\$ 12.51
Per common share market value at beginning of period	\$ 9.10	\$ 12.34	\$ 7.85	\$ 11.60
Per common share market value at end of period	10.09	13.25	10.09	13.25
Total investment return ^(F)	13.38%	9.66%	38.22%	22.01%
Common stock outstanding at end of period ^(A)	33,205,023	32,822,459	33,205,023	32,822,459
Statement of Assets and Liabilities Data:				
Net assets at end of period	\$ 368,823	\$ 410,498	\$ 368,823	\$ 410,498
Average net assets ^(G)	362,659	407,740	362,862	407,866
Senior Securities Data:				
Total borrowings, at cost	\$ 89,096	\$ 9,296	\$ 89,096	\$ 9,296
Mandatorily redeemable preferred stock ^(H)	151,871	132,250	151,871	132,250
Ratios/Supplemental Data:				
Ratio of net expenses to average net assets – annualized ^(I)	12.26%	9.65%	9.23%	9.27%
Ratio of net investment income to average net assets – annualized ^(J)	6.90	6.04	5.44	7.06

(A) Based on actual shares of common stock outstanding at the beginning or end of the corresponding period, as appropriate.

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

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

(E) Represents the impact of the different share amounts (weighted-average basic common shares outstanding for the corresponding period and actual common shares outstanding at the end of the period) 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 period, 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 period.

(H) Represents the aggregate 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 due to the Adviser, the ratio of expenses to average net assets - annualized would have been 15.10% and 12.21% for the three months ended December 31, 2020 and 2019, respectively, and 12.11% and 11.81% for the nine months ended December 31, 2020 and 2019, respectively.

(J) Had we not received any non-contractual, unconditional, and irrevocable credits of fees from the Adviser, the ratio of net investment income to average net assets - annualized would have been 4.06% and 3.48% for the three months ended December 31, 2020 and 2019, respectively, and 2.56% and 4.51% for the nine months ended December 31, 2020 and 2019, respectively.

NOTE 12. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES

In accordance with the SEC's Regulation S-X, we do not consolidate portfolio company investments. Further, in accordance with ASC 946, we are precluded from consolidating any entity other than another investment company, except that ASC 946 provides for the consolidation of a controlled operating company that provides substantially all of its services to the investment company or its consolidated subsidiaries. We did not have any unconsolidated subsidiaries that met any of the significance conditions under Rule 1-02(w) of the SEC's Regulation S-X as of or during the nine month periods ended December 31, 2020 and 2019.

NOTE 13. SUBSEQUENT EVENTS

Distributions and Dividends

In January 2021, our Board of Directors declared the following monthly distributions to common stockholders and monthly dividends to holders of our Series D Term Preferred Stock and Series E Term Preferred Stock:

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Common Share</u>	<u>Dividend per Share of Series D Term Preferred Stock</u>	<u>Dividend per Share of Series E Term Preferred Stock</u>
January 22, 2021	January 29, 2021	\$ 0.07	\$ 0.13020833	\$ 0.13281250
February 17, 2021	February 26, 2021	0.07	0.13020833	0.13281250
March 18, 2021	March 31, 2021	0.07	0.13020833	0.13281250
	Total for the Quarter:	\$ 0.21	\$ 0.39062499	\$ 0.39843750

COVID-19 Impact

We continue to closely monitor and work with our portfolio companies to navigate the significant challenges created by the continuing COVID-19 pandemic and are focused on ensuring the safety of the Adviser's and Administrator's personnel and of the employees of our portfolio companies, while also managing our ongoing business activities. While we are closely monitoring all of our portfolio companies, our portfolio continues to be diverse from a geographic and industry perspective. Through proactive measures and continued diligence, the management teams of our portfolio companies continue to demonstrate their ability to respond effectively and efficiently to the challenges posed by COVID-19 and related orders imposed by state and local governments, including paused or reversed reopening orders. We believe we have sufficient levels of liquidity to support our existing portfolio companies, as necessary, and selectively deploy capital in new investment opportunities.

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

All statements contained herein, other than historical facts, may constitute "forward-looking statements." These statements may relate to, among other things, our future operating results, our business prospects and the prospects of our portfolio companies, actual and potential conflicts of interest with Gladstone Management Corporation (the "Adviser") and its affiliates, the use of borrowed money to finance our investments, the adequacy of our financing sources and working capital, and our ability to co-invest, among other factors. In some cases, you can identify forward-looking statements by terminology such as "estimate," "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "project," "intend," "expect," "should," "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 ("RIC") and as a business development company ("BDC"); (12) the impact of COVID-19 generally and on the economy, the capital markets and our portfolio companies, including the measures taken by governmental authorities to address it; and (13) those factors described in Item 1A. "Risk Factors" herein and the "Risk Factors" sections of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, filed with the U.S. Securities and Exchange Commission ("SEC") on May 12, 2020 (the "Annual Report"). We caution readers not to place undue reliance on any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements and future results could differ materially from historical performance. We have based forward-looking statements on information available to us on the date of this Quarterly Report on Form 10-Q (the "Quarterly Report"). Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Quarterly Report. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed or in the future may file with the SEC, including subsequent annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements contained in this Quarterly Report are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended.

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

The following analysis of our financial condition and results of operations should be read in conjunction with our accompanying *Consolidated Financial Statements* and the notes thereto contained elsewhere in this Quarterly Report and in our 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.

OVERVIEW

General

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 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 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.

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. David Dullum, our president, also serves as the executive vice president of private equity (buyouts) of the Adviser. Michael LiCalsi, our general counsel and secretary, also serves as the Administrator’s president, general counsel, and secretary, as well as the executive vice president of administration of the Adviser).

Additionally, Gladstone Securities, LLC (“Gladstone Securities”), a privately-held broker-dealer (indirectly owned and controlled by Mr. Gladstone, our chairman and chief executive officer) registered with the Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation, 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. For additional information refer to Note 4—*Related Party Transactions* in the accompanying *Notes to Consolidated Financial Statements*. Since May of 2020, Gladstone Securities also acts as dealer manager in connection with our offering of up to \$350.0 million aggregate principal amount of our 6.00% Notes due 2040 on a “reasonable best efforts” basis.

We were established for the purpose of investing in debt and equity securities of established private businesses operating in the United States (“U.S.”). Our investment objectives are to: (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 our 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 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 December 31, 2020, our investment portfolio was comprised of 74.2% in debt securities and 25.8% in equity securities, at cost.

We focus on investing in lower middle market private businesses (which we generally define as 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 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, 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 to co-invest, under certain circumstances, with certain of our affiliates, including Gladstone Capital Corporation (“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. 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.

Our shares of common stock, 6.25% 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.

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 nine months ended December 31, 2020, we invested in one new portfolio company and exited one portfolio company. As of December 31, 2020, our portfolio was comprised of 28 companies. From our initial public offering in June 2005 through December 31, 2020, we made investments in 53 companies, excluding investments in syndicated loans, for a total of approximately \$1.4 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 paid-in-kind (“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 December 31, 2020, we had unrecognized, contractual success fees of \$44.6 million, or \$1.34 per common share. Consistent with accounting principles generally accepted in the U.S. (“GAAP”), we have not recognized success fee receivables and related income in our accompanying *Consolidated Financial Statements* until earned.

From inception through December 31, 2020, we completed sales of 23 portfolio companies that we acquired under our buyout strategy (which excludes investments in syndicated loans). In the aggregate, these sales have generated \$237.7 million in net realized gains and \$31.4 million in other income upon exit, for a total increase to our net assets of \$269.1 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 23 liquidity events have offset any realized losses since inception, which were primarily incurred during the 2008-2009 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 75.0% from March 2011 through December 31, 2020, and allowed us to declare and pay 11 supplemental distributions.

Capital Raising Efforts

We have been able to meet our capital needs through extensions of and increases to the Fifth Amended and Restated Credit Agreement dated April 30, 2013, as amended (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 \$180.0 million (with a potential total commitment of \$300.0 million through additional commitments from new or existing lenders). During the nine months ended December 31, 2020, we sold 155,560 shares of our common stock under our common stock at-the-market program (the “Common Stock ATM Program”) for gross proceeds of approximately \$1.8 million and 784,853 shares of our Series E Term Preferred Stock under our preferred stock at-the-market program (the “Series E ATM Program”) for gross proceeds of approximately \$19.3 million. During the year ended March 31, 2020, we sold 227,004 shares of our common stock under the Common Stock ATM Program for gross proceeds of approximately \$3.1 million. 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 our at-the-market programs, and mandatorily redeemable preferred stock.

Although we have been able to access the capital markets historically, market conditions, including the impact of COVID-19, 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 December 31, 2020, the closing market price of our common stock was \$10.09 per share, representing a 9.2% discount to our net asset value (“NAV”) of \$11.11 per share as of December 31, 2020. 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 2020 Annual Meeting of Stockholders held on August 20, 2020, our stockholders approved a proposal authorizing us, with the subsequent approval of our board of directors (“Board of Directors”), to issue and sell shares of our common stock at a price below our then-current NAV per share, provided that the number of shares issued and sold pursuant to such authority does not exceed 25.0% of our then-outstanding common stock immediately prior to each such sale. This August 2020 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 previous Common Stock ATM Program in March and April of 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), 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 currently outstanding).

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 a result, our asset coverage requirements for senior securities changed from 200% to 150%, effective as of April 10, 2019, one year after the date of the Board of Directors' approval. 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 December 31, 2020, our asset coverage ratio on our senior securities representing indebtedness was 671.0% and our asset coverage on our senior securities that are stock was 250.3%.

Investment Highlights

Investment Activity

During the nine months ended December 31, 2020, the following significant transactions occurred:

- In July 2020, we invested \$46.9 million in Mason West, LLC ("Mason West") through a combination of secured first lien debt and preferred equity. Mason West, headquartered in Placentia, California, is a provider of engineered seismic restraint and vibration isolation solutions. In September 2020, Mason West repaid \$7.0 million of secured first lien debt and redeemed \$3.1 million of preferred equity.
- In September 2020, we invested an additional \$8.0 million in PSI Molded Plastics, Inc. ("PSI Molded") in the form of preferred equity and also amended certain terms of our existing debt.
- In December 2020, we recapitalized our investment in Old World Christmas, Inc. ("Old World") and invested an additional \$27.0 million in the form of secured first lien debt. In connection with this investment, Old World paid dividend income of \$3.2 million and additional equity proceeds of \$10.8 million, resulting in a \$7.5 million return of preferred equity cost basis and a realized gain of \$3.3 million.
- In December 2020, we invested an additional \$3.0 million in Galaxy Technologies, Inc. ("Galaxy") in the form of secured second lien debt. In connection with this investment, Galaxy purchased SBS Industries, LLC (a subsidiary of SBS Industries Holdings, Inc. ("SBS Industries")), one of our other portfolio companies). SBS Industries used proceeds from the sale to partially repay our \$11.4 million first lien debt, resulting in a realized loss of \$8.5 million.
- In December 2020, we sold our investment in Frontier Packaging, Inc. ("Frontier"), which resulted in dividend income of \$0.9 million, success fee income of \$0.2 million, and a realized gain of \$14.0 million. In connection with the sale, we received net cash proceeds of \$26.0 million, including the repayment of our debt investment of \$9.5 million at par.

Recent Developments

Distributions and Dividends

In January 2020, our Board of Directors declared the following monthly distributions to common stockholders and monthly dividends to holders of our Series D Term Preferred Stock and Series E Term Preferred Stock:

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Common Share</u>	<u>Dividend per Share of Series D Term Preferred Stock</u>	<u>Dividend per Share of Series E Term Preferred Stock</u>
January 22, 2021	January 29, 2021	\$ 0.07	\$ 0.13020833	\$ 0.13281250
February 17, 2021	February 26, 2021	0.07	0.13020833	0.13281250
March 18, 2021	March 31, 2021	0.07	0.13020833	0.13281250
Total for the Quarter:		\$ 0.21	\$ 0.39062499	\$ 0.39843750

LIBOR Transition

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. LIBOR is currently anticipated to be phased out in June 2023. LIBOR may transition to a new standard rate, the Secured Overnight Financing Rate ("SOFR"), which will incorporate certain overnight repo market data collected from multiple data sets. To attain an equivalent one-month rate, we currently intend to adjust the SOFR to minimize the difference between the interest that a borrower would be paying using LIBOR versus what it will be paying using SOFR. We are currently monitoring the transition and cannot assure you whether SOFR will become a standard rate for variable rate debt. We expect we will need to continue to renegotiate certain 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. Assuming that SOFR replaces LIBOR and is appropriately adjusted to equate to one-month LIBOR, we expect that there should be minimal impact on our operations.

COVID-19 Impact

We continue to closely monitor and work with our portfolio companies to navigate the significant challenges created by the continuing COVID-19 pandemic and are focused on ensuring the safety of the Adviser's and Administrator's personnel and of the employees of our portfolio companies, while also managing our ongoing business activities. While we are closely monitoring all of our portfolio companies, our portfolio continues to be diverse from a geographic and industry perspective. Through proactive measures and continued diligence, the management teams of our portfolio companies continue to demonstrate their ability to respond effectively and efficiently to the challenges posed by COVID-19 and related orders imposed by state and local governments, including paused or reversed reopening orders. We believe we have sufficient levels of liquidity to support our existing portfolio companies, as necessary, and selectively deploy capital in new investment opportunities.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended December 31, 2020 to the Three Months Ended December 31, 2019

	For the Three Months Ended December 31,			
	2020	2019	\$ Change	% Change
INVESTMENT INCOME				
Interest income	\$12,148	\$ 12,126	\$ 22	0.2%
Dividend and success fee income	5,224	3,870	1,354	35.0
Total investment income	17,372	15,996	1,376	8.6
EXPENSES				
Base management fee	3,116	2,970	146	4.9
Loan servicing fee	1,786	1,794	(8)	(0.4)
Incentive fee	3,756	2,873	883	30.7
Administration fee	382	369	13	3.5
Interest and dividend expense	3,383	3,053	330	10.8
Amortization of deferred financing costs and discounts	451	373	78	20.9
Other	818	1,017	(199)	(19.6)
Expenses before credits from Adviser	13,692	12,449	1,243	10.0
Credits to fees from Adviser	(2,575)	(2,611)	36	(1.4)
Total expenses, net of credits to fees	11,117	9,838	1,279	13.0
NET INVESTMENT INCOME	6,255	6,158	97	1.6
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain on investments	9,105	34,005	(24,900)	(73.2)
Net unrealized depreciation of investments	(89)	(26,999)	26,910	99.7
Net unrealized depreciation of other	—	154	(154)	(100.0)
Net realized and unrealized gain	9,016	7,160	1,856	25.9
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$15,271	\$ 13,318	\$ 1,953	14.7%
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	\$ 0.19	\$ 0.19	\$ —	0.0%
Net increase in net assets resulting from operations	\$ 0.46	\$ 0.41	\$ 0.05	12.2%

NM = Not Meaningful

Investment Income

Total investment income increased 8.6% for the three months ended December 31, 2020, as compared to the prior year period. The increase was primarily due to an increase in dividend and success fee income.

Interest income from our investments in debt securities increased 0.2% for the three months ended December 31, 2020, as compared to the prior year period. 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 three months ended December 31, 2020 was \$404.0 million, compared to \$383.0 million for the prior year period. This increase was primarily due to the origination of \$61.9 million of new debt investments and \$55.7 million of follow-on debt investments to existing portfolio companies, partially offset by \$55.3 million of pay-offs, restructurings, or write-offs of debt investments and \$47.9 million of loans placed on non-accrual status after September 30, 2019, and their respective impact on the weighted-average principal balance when considering timing of new investments, pay-offs, restructurings, write-offs, and accrual status changes, as applicable. The weighted-average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as dividend and success fee income, was 11.9% for the three months ended December 31, 2020, compared to 12.6% for the prior year period. The weighted-average yield may vary from period to period, based on the current stated interest rate on interest-bearing investments.

As of December 31, 2020, our loans to B+T Group Acquisition, Inc. ("B+T"), Horizon Facilities Services, Inc. ("Horizon"), The Mountain Corporation ("The Mountain"), PSI Molded, and SOG Specialty Knives & Tools, LLC ("SOG") were on non-accrual status, with an aggregate debt cost basis of \$95.1 million. As of December 31, 2019, certain of our loans to Meridian Rack & Pinion, Inc. ("Meridian"), The Mountain, PSI Molded, and SOG were on non-accrual status, with an aggregate debt cost basis of \$56.4 million.

Dividend and success fee income for the three months ended December 31, 2020 increased 35.0% from the prior year period. During the three months ended December 31, 2020, dividend and success fee income consisted primarily of \$5.0 million of dividend income. During the three months ended December 31, 2019, dividend and success fee income consisted primarily of \$3.6 million of dividend income.

As of December 31, 2020 and March 31, 2020, no single investment represented greater than 10% of the total investment portfolio at fair value.

Expenses

Total expenses, net of any non-contractual, unconditional, and irrevocable credits from the Adviser, increased 13.0% during the three months ended December 31, 2020, as compared to the prior year period, primarily due to an increase in the incentive fee and interest and dividend expense.

In accordance with GAAP, we recorded a capital gains-based incentive fee of \$1.8 million during the three months ended December 31, 2020, compared to a capital gains-based incentive fee of \$1.4 million during the three months ended December 31, 2019. 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 increased by \$0.5 million for the three months ended December 31, 2020, as compared to the prior year period, primarily due to the increase in pre-incentive fee net investment income as well as the decrease in net assets, which drives the hurdle rate.

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:

	Three Months Ended December 31,	
	2020	2019
Average total assets subject to base management fee ^(A)	\$623,200	\$594,000
Multiplied by prorated annual base management fee of 2.0%	0.5%	0.5%
Base management fee^(B)	3,116	2,970
Credits to fees from Adviser—other ^(B)	(789)	(817)
Net base management fee	\$ 2,327	\$ 2,153
Loan servicing fee^(B)	1,786	1,794
Credits to base management fee—loan servicing fee ^(B)	(1,786)	(1,794)
Net loan servicing fee	\$ —	\$ —
Incentive fee – income-based	\$ 2,002	\$ 1,515
Incentive fee – capital gains-based^(C)	1,754	1,358
Total incentive fee^(B)	\$ 3,756	\$ 2,873
Credits to fees from Adviser—other ^(B)	—	—
Net total incentive fee	\$ 3,756	\$ 2,873

- (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 *Consolidated Statement of Operations*.
- (C) The capital gains-based incentive fees are recorded in accordance with GAAP and do not necessarily reflect amounts contractually due under the terms of the Advisory Agreement.

Interest and dividend expense increased 10.8% during the three months ended December 31, 2020, as compared to the prior year period, primarily due to a \$0.2 million increase in dividend expense as a result of the Series E ATM Program sales during the current fiscal year. Interest expense increased \$0.1 million primarily as a result of the higher weighted-average balance outstanding on the Credit Facility, which was partially offset by a lower effective interest rate. The weighted-average balance outstanding on the Credit Facility during the three months ended December 31, 2020 was \$104.8 million, as compared to \$37.5 million in the prior year period. The effective interest rate on the Credit Facility, excluding the impact of deferred financing costs, during the three months ended December 31, 2020 was 3.8%, as compared to 9.3% in the prior year period. The decrease in the effective interest rate on the Credit Facility was primarily a result of a decrease in LIBOR and a decrease in unused commitment fees on the undrawn portion of the Credit Facility. Refer to "Liquidity and Capital Resources — Revolving Line of Credit" for further discussion of the Credit Facility.

Realized and Unrealized Gain (Loss)

Net Realized Gain (Loss) on Investments

During the three months ended December 31, 2020, we recorded net realized gains on investments of \$9.1 million primarily related to a \$14.0 million realized gain from the exit of Frontier and a \$3.3 million realized gain from the recapitalization of Old World, partially offset by an \$8.5 million realized loss related to the partial write-off of a debt investment in SBS Industries. During the three months ended December 31, 2019, we recorded net realized gains on investments of \$34.0 million, primarily related to a \$47.9 million realized gain from the exit of Nth Degree, Inc. (“Nth Degree”) partially offset by a \$14.5 million realized loss from the exit of B-Dry, LLC (“B-Dry”).

Net Unrealized Appreciation (Depreciation) of Investments

During the three months ended December 31, 2020, we recorded net unrealized depreciation of investments of \$0.1 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2020 were as follows:

Portfolio Company	Three Months Ended December 31, 2020			
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Pioneer Square Brands, Inc.	\$ —	\$ 4,420	\$ —	\$ 4,420
Educators Resource, Inc.	—	3,488	—	3,488
Old World Christmas, Inc.	3,289	27	—	3,316
Diligent Delivery Systems	—	2,961	—	2,961
Frontier Packaging, Inc.	14,032	—	(11,869)	2,163
SOG Specialty Knives and Tools, LLC	—	1,806	—	1,806
Schylling, Inc.	—	1,138	—	1,138
Head Country, Inc.	—	916	—	916
Horizon Facilities Service, Inc.	—	909	—	909
The Maids International, LLC	—	495	—	495
Ginsey Home Solutions, Inc.	—	480	—	480
Basset Creek Services, Inc.	—	469	—	469
PSI Molded Plastics, Inc.	—	459	—	459
ImageWorks Display and Marketing Group, Inc.	—	(1,411)	—	(1,411)
D.P.M.S., Inc.	—	(1,805)	—	(1,805)
Brunswick Bowling Products, Inc.	—	(4,825)	—	(4,825)
SBS Industries Holdings, Inc.	(8,470)	1,580	—	(6,890)
Other, net (<\$1.0 million, net)	254	673	—	927
Total	\$ 9,105	\$ 11,780	\$ (11,869)	\$ 9,016

The primary drivers of net unrealized depreciation of investments of \$0.1 million for the three months ended December 31, 2020 were the reversal of previously recorded unrealized appreciation of our investment in Frontier upon its exit and decreased performance of certain of our portfolio companies, which was partially offset by an increase in performance of certain of our portfolio companies. In part, the performance of certain of our portfolio companies was driven by the impact COVID-19 has had or is expected to have on our portfolio companies and the markets in which they operate, including government restrictions on the portfolio companies’ ability to operate under historical conditions, current and future shutdowns and reopening restrictions, as well as demand for their products and general economic outlook.

During the three months ended December 31, 2019, we recorded net unrealized depreciation of investments of \$27.0 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the three months ended December 31, 2019 were as follows:

Portfolio Company	Three Months Ended December 31, 2019			
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Nth Degree, Inc.	\$ 47,861	\$ 1,926	\$ (40,846)	\$ 8,941
Galaxy Tool Holding Corporation	—	6,577	—	6,577
Old World Christmas, Inc.	—	2,447	—	2,447
Counsel Press, Inc.	—	2,152	—	2,152
Pioneer Square Brands, Inc.	—	1,694	—	1,694
B-Dry, LLC.	(14,452)	—	14,699	247
B+T Group Acquisition, Inc.	—	(526)	—	(526)
Diligent Delivery Systems	—	(550)	—	(550)
Horizon Facilities Service, Inc.	—	(584)	—	(584)
Brunswick Bowling Products, Inc.	—	(1,100)	—	(1,100)
Frontier Packaging, Inc.	—	(1,145)	—	(1,145)
Educators Resource, Inc.	—	(1,627)	—	(1,627)
Ginsey Home Solutions	—	(2,372)	—	(2,372)
PSI Molded Plastics, Inc.	—	(2,532)	—	(2,532)
SBS Industries Holdings, Inc.	—	(4,358)	—	(4,358)
Other, net (<\$1.0 million, net)	596	(854)	—	(258)
Total	\$ 34,005	\$ (852)	\$ (26,147)	\$ 7,006

The primary drivers of net unrealized depreciation of \$27.0 million for the three months ended December 31, 2019 were the reversal of previously recorded unrealized appreciation of our investment in Nth Degree upon its exit, a decline in performance of certain of our other portfolio companies, and a decrease in comparable multiples used to estimate the fair value of certain of our portfolio companies, which were partially offset by the reversal of previously recorded unrealized depreciation of our investment in B-Dry upon its exit and increased performance of certain of our portfolio companies.

Across our entire investment portfolio, we recorded \$0.6 million of net unrealized depreciation on our debt positions and \$0.5 million of net unrealized appreciation on our equity positions for the three months ended December 31, 2020. As of December 31, 2020, the fair value of our investment portfolio was less than the cost basis by \$47.0 million, as compared to September 30, 2020, when the fair value of our investment portfolio was less than the cost basis by \$46.9 million, representing net unrealized depreciation of \$0.1 million for the three months ended December 31, 2020. Our entire portfolio had a fair value of 92.9% of cost as of December 31, 2020.

Net Unrealized (Appreciation) Depreciation on Other

During the three months ended December 31, 2020, we did not record any unrealized appreciation or depreciation of other. During the three months ended December 31, 2019, we recorded net unrealized depreciation of other of \$0.2 million related to the Credit Facility recorded at fair value.

Comparison of the Nine Months Ended December 31, 2020 to the Nine Months Ended December 31, 2019

	For the Nine Months Ended December 31,			
	2020	2019	\$ Change	% Change
INVESTMENT INCOME				
Interest income	\$34,513	\$ 38,144	\$ (3,631)	(9.5)%
Dividend and success fee income	5,406	11,798	(6,392)	(54.2)
Total investment income	<u>39,919</u>	<u>49,942</u>	<u>(10,023)</u>	<u>(20.1)</u>
EXPENSES				
Base management fee	8,961	9,285	(324)	(3.5)
Loan servicing fee	5,242	5,139	103	2.0
Incentive fee	3,454	6,042	(2,588)	(42.8)
Administration fee	1,218	1,106	112	10.1
Interest and dividend expense	9,615	9,499	116	1.2
Amortization of deferred financing costs and discounts	1,291	1,119	172	15.4
Other	3,178	3,942	(764)	(19.4)
Expenses before credits from Adviser	32,959	36,132	(3,173)	(8.8)
Credits to fees from Adviser	(7,836)	(7,786)	(50)	0.6
Total expenses, net of credits to fees	<u>25,123</u>	<u>28,346</u>	<u>(3,223)</u>	<u>(11.4)</u>
NET INVESTMENT INCOME	<u>14,796</u>	<u>21,596</u>	<u>(6,800)</u>	<u>(31.5)</u>
REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain on investments	10,479	55,682	(45,203)	(81.2)
Net unrealized depreciation of investments	(3,335)	(46,900)	43,565	92.9
Net unrealized appreciation of other	—	(10)	10	100.0
Net realized and unrealized (loss) gain	<u>7,144</u>	<u>8,772</u>	<u>(1,628)</u>	<u>(18.6)</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$21,940</u>	<u>\$ 30,368</u>	<u>\$ (8,428)</u>	<u>(27.8)%</u>
BASIC AND DILUTED PER COMMON SHARE:				
Net investment income	\$ 0.45	\$ 0.66	\$ (0.21)	(31.8)
Net increase in net assets resulting from operations	<u>\$ 0.66</u>	<u>\$ 0.93</u>	<u>\$ (0.27)</u>	<u>(29.0)%</u>

NM = Not Meaningful

Investment Income

Total investment income decreased 20.1% for the nine months ended December 31, 2020, as compared to the prior year period. The decrease was due to a decrease in dividend and success fee income, as well as a decrease in interest income.

Interest income from our investments in debt securities decreased 9.5% for the nine months ended December 31, 2020, as compared to the prior year period. During the nine months ended December 31, 2019, we received \$2.1 million of past due interest upon the exit of our investment in Alloy Die Casting Co. (“ADC”). 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 nine months ended December 31, 2020 was \$383.7 million, compared to \$373.3 million for the prior year period. This increase was primarily due to the origination of \$93.8 million of new debt investments and \$81.9 million of follow-on debt investments to existing portfolio companies, partially offset by \$109.2 million of pay-offs, restructurings, or write-offs of debt investments and \$47.9 million of loans placed on non-accrual status after March 31, 2019, and their respective impact on the weighted-average principal balance when considering timing of new investments, pay-offs, restructurings, write-offs, and accrual status changes, as applicable. The weighted-average yield on our interest-bearing investments, excluding cash and cash equivalents and receipts recorded as dividend, success fee, and other income, was 11.9% for the nine months ended December 31, 2020, compared to 13.5% for the prior year period. The weighted-average yield may vary from period to period, based on the current stated interest rate on interest-bearing investments.

As of December 31, 2020, our loans to B+T, Horizon, The Mountain, PSI Molded and SOG were on non-accrual status, with an aggregate debt cost basis of \$95.1 million. As of December 31, 2019, certain of our loans to Meridian, The Mountain, PSI Molded, and SOG were on non-accrual status, with an aggregate debt cost basis of \$56.4 million.

Dividend and success fee income for the nine months ended December 31, 2020 decreased 54.2% from the prior year period. During the nine months ended December 31, 2020, dividend and success fee income consisted of \$5.0 million of dividend income and \$0.4 million of success fee income. During the nine months ended December 31, 2019, dividend and success fee income consisted of \$9.4 million of dividend income and \$2.4 million of success fee income.

As of December 31, 2020 and March 31, 2020, no single investment represented greater than 10% of the total investment portfolio at fair value.

Expenses

Total expenses, net of any non-contractual, unconditional, and irrevocable credits from the Adviser, decreased 11.4% during the nine months ended December 31, 2020, as compared to the prior year period, primarily due to a decrease in the incentive fee, other expenses, and the base management fee.

In accordance with GAAP, we recorded a \$1.5 million capital gains-based incentive fee during the nine months ended December 31, 2020, compared to a capital gains-based incentive fee of \$1.7 million during the nine months ended December 31, 2019. 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 by \$2.3 million for the nine months ended December 31, 2020, as compared to the prior year period, as the decrease in pre-incentive fee net investment income more than offset the decrease in net assets, which drives the hurdle rate.

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:

	Nine Months Ended December 31,	
	2020	2019
Average total assets subject to base management fee ^(A)	\$597,400	\$619,000
Multiplied by prorated annual base management fee of 2.0%	1.5%	1.5%
Base management fee^(B)	8,961	9,285
Credits to fees from Adviser - other ^(B)	(2,594)	(2,647)
Net base management fee	\$ 6,367	\$ 6,638
Loan servicing fee^(B)	5,242	5,139
Credits to base management fee - loan servicing fee ^(B)	(5,242)	(5,139)
Net loan servicing fee	\$ —	\$ —
Incentive fee – income-based	\$ 2,002	\$ 4,338
Incentive fee – capital gains-based^(C)	1,452	1,704
Total incentive fee^(B)	\$ 3,454	\$ 6,042
Credits to fees from Adviser - other ^(B)	—	—
Net total incentive fee	\$ 3,454	\$ 6,042

- (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 *Consolidated Statement of Operations*.
- (C) The capital gains-based incentive fees are recorded in accordance with GAAP and do not necessarily reflect amounts contractually due under the terms of the Advisory Agreement.

Interest and dividend expense increased 1.2% during the nine months ended December 31, 2020, as compared to the prior year period, primarily due to the increase in dividend expense which was partially offset by a decrease in interest expense. Dividend expense increased by \$0.3 million as a result of the Series E ATM Program sales during the current fiscal year. Interest expense decreased by \$0.2 million due to a decrease in the effective interest rate, partially offset by a higher weighted-average balance outstanding on the Credit Facility. The weighted-average balance outstanding on the Credit Facility during the nine months ended December 31, 2020 was \$88.7 million, as compared to \$45.8 million in the prior year period. The effective interest rate on the Credit Facility, excluding the impact of deferred financing costs, during the nine months ended December 31, 2020 was 4.2%, as compared to 8.6% in the prior year period. The decrease in the effective interest rate on the Credit Facility was primarily a result of a decrease in unused commitment fees on the undrawn portion of the Credit Facility and a decrease in LIBOR. Refer to "Liquidity and Capital Resources — *Revolving Line of Credit*" for further discussion of the Credit Facility.

Other expenses decreased 19.4% during the nine months ended December 31, 2020, as compared to the prior year period, primarily due to a decrease in bad debt expense, professional fees, and tax expense.

Realized and Unrealized Gain (Loss)

Net Realized Gain on Investments

During the nine months ended December 31, 2020, we recorded net realized gains on investments of \$10.5 million, primarily related to a \$14.0 million realized gain from the exit of Frontier, a \$3.3 million realized gain from the recapitalization of Old World, and gains from previous exits, partially offset by an \$8.5 million realized loss related to the partial write-off of a debt investment in SBS Industries. During the nine months ended December 31, 2019, we recorded net realized gains on investments of \$55.7 million, primarily related to a \$47.9 million realized gain from the exit of Nth Degree, a \$20.4 million realized gain from the exit of ADC and a \$3.2 million realized gain from the exit of Jackrabbit Inc. (“Jackrabbit”), which were partially offset by a \$2.7 million realized loss from the exit of Tread Corporation (“Tread”) and a \$14.5 million realized loss from the exit of B-Dry.

Net Unrealized Appreciation (Depreciation) of Investments

During the nine months ended December 31, 2020, we recorded net unrealized depreciation of investments of \$3.3 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended December 31, 2020 were as follows:

Portfolio Company	Nine Months Ended December 31, 2020			
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Pioneer Square Brands, Inc.	\$ —	\$ 20,635	\$ —	\$ 20,635
Frontier Packaging, Inc.	14,032	2,534	(11,869)	4,697
Ginsey Home Solutions, Inc.	—	4,151	—	4,151
SOG Specialty Knives and Tools, LLC	—	3,964	—	3,964
Educators Resource, Inc.	—	3,335	—	3,335
Old World Christmas, Inc.	3,289	37	—	3,326
Diligent Delivery Systems	—	2,409	—	2,409
Galaxy Technologies, Inc.	—	2,173	—	2,173
Head Country, Inc.	—	1,762	—	1,762
Schylling, Inc.	—	1,069	—	1,069
Cambridge Sound Management, Inc.	740	—	—	740
ImageWorks Display and Marketing Group, Inc.	—	(1,312)	—	(1,312)
Bassett Creek Services, Inc.	—	(1,359)	—	(1,359)
Counsel Press, Inc.	—	(1,850)	—	(1,850)
Nth Degree, Inc.	113	(3,649)	—	(3,536)
PSI Molded Plastics, Inc.	—	(3,755)	—	(3,755)
D.P.M.S., Inc.	—	(4,442)	—	(4,442)
SBS Industries Holdings, Inc.	(8,470)	1,580	—	(6,890)
Brunswick Bowling Products, Inc.	—	(18,048)	—	(18,048)
Other, net (<\$1.0 million, net)	775	(700)	—	75
Total	\$10,479	\$ 8,534	\$ (11,869)	\$ 7,144

The primary drivers of net unrealized depreciation of \$3.3 million for the nine months ended December 31, 2020 were the reversal of previously recorded unrealized appreciation of our investment in Frontier upon its exit, a decline in performance of certain portfolio companies, and a decrease in comparable multiples used to estimate the fair value of certain of our portfolio companies, which were partially offset by increased performance of certain of our other portfolio companies. In part, the performance of certain of our portfolio companies was driven by the impact COVID-19 has had or is expected to have on our portfolio companies and the markets in which they operate, including government restrictions on the portfolio companies’ ability to operate under historical conditions, current and future shutdowns and reopening restrictions, as well as demand for their products and general economic outlook.

During the nine months ended December 31, 2019, we recorded net unrealized depreciation of investments of \$46.9 million. The realized gains (losses) and unrealized appreciation (depreciation) across our investments for the nine months ended December 31, 2019 were as follows:

Portfolio Company	Nine Months Ended December 31, 2019			
	Realized Gain (Loss)	Unrealized Appreciation (Depreciation)	Reversal of Unrealized (Appreciation) Depreciation	Net Gain (Loss)
Nth Degree, Inc.	\$ 47,861	\$ 12,689	\$ (40,846)	\$ 19,704
Alloy Die Casting Co.	20,355	8,823	(12,634)	16,544
Counsel Press, Inc.	—	7,321	—	7,321
Galaxy Tool Holding Corporation	—	5,329	—	5,329
D.P.M.S., Inc.	—	3,740	—	3,740
Old World Christmas, Inc.	—	3,649	—	3,649
ImageWorks Display and Marketing Group, Inc.	—	2,019	—	2,019
Head Country, Inc.	—	1,423	—	1,423
Tread Corporation	(2,726)	—	3,380	654
Drew Foam Companies, Inc.	565	—	—	565
B-Dry, LLC	(14,452)	—	14,699	247
The Mountain Corporation	—	(796)	—	(796)
Pioneer Square Brands, Inc.	—	(1,092)	—	(1,092)
Frontier Packaging, Inc.	—	(1,303)	—	(1,303)
Jackrabbit, Inc.	3,198	—	(4,547)	(1,349)
SOG Specialty Knives and Tools, LLC	—	(2,305)	—	(2,305)
Brunswick Bowling Products, Inc.	—	(2,419)	—	(2,419)
PSI Molded Plastics, Inc.	—	(3,668)	—	(3,668)
Educators Resource, Inc.	—	(3,743)	—	(3,743)
Meridian Rack & Pinion, Inc.	—	(5,796)	—	(5,796)
Ginsey Home Solutions, Inc.	—	(5,926)	—	(5,926)
SBS Industries Holdings, Inc.	—	(6,387)	—	(6,387)
J.R. Hobbs Co. – Atlanta, LLC	—	(17,822)	—	(17,822)
Other, net (<\$1.0 million, net)	881	(556)	(132)	193
Total	\$ 55,682	\$ (6,820)	\$ (40,080)	\$ 8,782

The primary drivers of net unrealized depreciation of \$46.9 million for the nine months ended December 31, 2019 were the reversal of previously recorded unrealized appreciation of our investments in Nth Degree, ADC, and Jackrabbit upon their exit, a decline in performance of certain portfolio companies, and a decrease in comparable multiples used to estimate the fair value of certain of our portfolio companies, which were partially offset by the reversal of previously recorded unrealized depreciation of our investment in B-Dry and Tread upon their exit and increased performance of certain of our other portfolio companies.

Across our entire investment portfolio, we recorded net unrealized depreciation of \$1.4 million and \$1.9 million on our debt and on our equity positions, respectively, for the nine months ended December 31, 2020. As of December 31, 2020, the fair value of our investment portfolio was less than the cost basis by \$47.0 million, as compared to March 31, 2020, when the fair value of our investment portfolio was less than the cost basis by \$43.7 million, representing net unrealized depreciation of \$3.3 million for the nine months ended December 31, 2020. Our entire portfolio had a fair value of 92.9% of cost as of December 31, 2020.

Net Unrealized (Appreciation) Depreciation on Other

During the nine months ended December 31, 2020, we did not record any unrealized appreciation or depreciation of other. During the nine months ended December 31, 2019, we recorded net unrealized appreciation of other of \$10 related to the Credit Facility recorded at fair value.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Net cash used in operating activities for the nine months ended December 31, 2020 was \$32.6 million, as compared to net cash provided by operating activities of \$86.3 million for the nine months ended December 31, 2019. This change was primarily due to decreases in principal repayments of investments and net proceeds from the sale of investments, partially offset by a decline in purchases of investments.

Purchases of investments were \$89.6 million during the nine months ended December 31, 2020, compared to \$95.3 million during the nine months ended December 31, 2019. Principal repayments and net proceeds from the sale of investments totaled \$51.2 million during the nine months ended December 31, 2020, compared to \$167.0 million during the nine months ended December 31, 2019.

As of December 31, 2020, we had equity investments in or loans to 28 portfolio companies with an aggregate cost basis of \$657.9 million. As of December 31, 2019, we had equity investments in or loans to 28 portfolio companies with an aggregate cost basis of \$573.3 million. The following table summarizes our total portfolio investment activity during the nine months ended December 31, 2020 and 2019:

	Nine Months Ended December 31,	
	2020	2019
Beginning investment portfolio, at fair value	\$565,924	\$624,172
New investments	46,902	43,180
Disbursements to existing portfolio companies	42,669	52,124
Unscheduled principal repayments	(20,734)	(79,216)
Net proceeds from sales of investments	(29,410)	(87,060)
Net realized gain on investments	8,858	54,522
Net unrealized appreciation (depreciation) of investments	8,534	(6,820)
Reversal of net unrealized appreciation of investments	(11,869)	(40,080)
Amortization of premiums, discounts, and acquisition costs, net	14	14
Ending investment portfolio, at fair value	<u>\$610,888</u>	<u>\$560,836</u>

The following table summarizes the contractual principal repayment and maturity of our investment portfolio by fiscal year, assuming no voluntary prepayments, as of December 31, 2020:

		Amount
For the remaining three months ending March 31:	2021	\$ 9,050
For the fiscal years ending March 31:	2022	39,720
	2023	106,150
	2024	116,851
	2025	164,277
	Thereafter	52,250
	Total contractual repayments	\$ 488,298
	Adjustments to cost basis of debt investments	(35)
	Investments in equity securities	169,618
	Total cost basis of investments held as of December 31, 2020:	<u>\$ 657,881</u>

Financing Activities

Net cash provided by financing activities for the nine months ended December 31, 2020 was \$31.2 million, which consisted primarily of \$34.8 million of net borrowings under the Credit Facility, \$19.3 million of gross proceeds from the issuance of mandatorily redeemable preferred stock under the Series E ATM Program, and \$1.7 million of gross proceeds from the issuance of common stock under the Common Stock ATM Program, partially offset by \$23.9 million in distributions to common stockholders.

Net cash used in financing activities for the nine months ended December 31, 2019 was \$75.9 million, which consisted primarily of \$48.8 million of net repayments on the Credit Facility and \$27.0 million in distributions to common stockholders.

Distributions and Dividends to Stockholders

Common Stock Distributions

To qualify to be taxed as a RIC and thus avoid corporate level federal income tax on the income we distribute to our stockholders, we are required, among other requirements, to distribute to our stockholders on an annual basis 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”), 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 \$0.07 per common share for each of the nine months from April through December 2020, and a supplemental distribution of \$0.09 per common share in June 2020.

For the fiscal year ended March 31, 2020, Investment Company Taxable Income exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat \$17.9 million of the first distributions paid subsequent to fiscal year-end as having been paid in the prior year. In addition, for the fiscal year ended March 31, 2020, net capital gains exceeded distributions declared and paid, and, in accordance with Section 855(a) of the Code, we elected to treat \$5.3 million of the first distributions paid subsequent to fiscal year-end as having been paid in the prior year. For the year ended March 31, 2020, we recorded \$6.5 million of net adjustments for estimated permanent book-tax differences to reflect tax character, which decreased Capital in excess of par value and increased Accumulated net realized gain in excess of distributions and Underdistributed (overdistributed) net investment income. For the nine months ended December 31, 2020, we recorded \$1.0 million of net adjustments for estimated permanent book-tax differences to reflect tax character, which decreased Capital in excess of par value and Accumulated net realized gain in excess of distributions and increased Underdistributed net investment income.

Preferred Stock Dividends

Our Board of Directors declared and we paid monthly cash dividends of (i) \$0.13020833 per share to holders of our Series D Term Preferred Stock for each of the nine months from April through December 2020 and (ii) \$0.1328125 per share to holders of our Series E Term Preferred Stock for each of the nine months from April through December 2020. 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 14, 2019, we filed a registration statement on FormN-2 (File No. 333-232124), which the SEC declared effective on July 24, 2019. 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 December 31, 2020, we had the ability to issue up to \$275.5 million in securities under the registration statement.

Common Stock

In December 2019, we entered into equity distribution agreements with Wedbush Securities, Inc., Cantor Fitzgerald & Co., and Ladenburg Thalmann & Co., Inc. (each, a “Common Stock ATM Sales Agent”), under which we have the ability to issue and sell shares of our common stock, from time to time, through the Common Stock ATM Sales Agents, up to an aggregate offering price of \$35.0 million in the Common Stock ATM Program. As of December 31, 2020, we had remaining capacity to sell up to \$30.1 million of common stock under the Common Stock ATM Program.

During the three months ended June 30, 2020, we sold 155,560 shares of our common stock under the Common Stock ATM Program at a weighted-average gross price of \$11.39 per share and raised approximately \$1.8 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was \$11.17 and resulted in total net proceeds of approximately \$1.7 million. These sales were above our then current estimated NAV per share. We did not sell any shares of our common stock under the Common Stock ATM Program during the period from June 30, 2020 to December 31, 2020.

During the year ended March 31, 2020, we sold 227,004 shares of our common stock under the Common Stock ATM Program at a weighted-average gross price of \$13.80 per share and raised approximately \$3.1 million of gross proceeds. The weighted-average net price per share, after deducting commissions and offering costs borne by us, was \$13.55 and resulted in total net proceeds of approximately \$3.1 million. These sales were above our then current estimated NAV per share.

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 December 31, 2020, the closing market price of our common stock was \$10.09 per share, representing a 9.2% discount to our NAV per share of \$11.11 as of December 31, 2020.

At our 2020 Annual Meeting of Stockholders held on August 20, 2020, our stockholders approved a proposal authorizing us with the subsequent approval of our Board of Directors, 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 the number of shares issued and sold pursuant to such authority does not exceed 25.0% of our then-outstanding common stock immediately prior to each such sale.

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 \$6.0 million per year as of December 31, 2020). We are required to redeem all outstanding shares of our 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.

In August 2018, we used the proceeds from the initial 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”) and our 6.500% Series C Cumulative Term Preferred Stock (our “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 our 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.

In May 2020, we entered into sales agreements with Wedbush Securities, Inc. and Virtu Americas LLC (each a “Series E ATM Sales Agent”), under which we have the ability to issue and sell shares of our Series E Term Preferred Stock, from time to time, through the Series E ATM Sales Agents, up to \$50.0 million aggregate liquidation preference in the Series E ATM Program. As of December 31, 2020, we had remaining capacity to sell up to \$30.4 million of our Series E Term Preferred Stock under the Series E ATM Program.

During the nine months ended December 31, 2020, we sold 784,853 shares of our Series E Term Preferred Stock under the Series E ATM Program with an aggregate liquidation preference of \$19.6 million. The weighted-average gross price per share net of discounts was \$24.56 and resulted in gross proceeds of approximately \$19.3 million. After deducting commissions and offering costs borne by us, net proceeds totaled approximately \$19.1 million.

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 outstanding shares of our 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.

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 December 31, 2020 was 250.3%, 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, Gladstone Business Investment, LLC (“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). 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. We incurred fees of approximately \$1.6 million in connection with this amendment.

On August 10, 2020, we, through Business Investment, entered into Amendment No. 5 to the Credit Facility. Among other things, Amendment No. 5 amends the Credit Facility to (i) add LIBOR replacement language; (ii) implement a 0.5% LIBOR floor; (iii) reduce the facility size from \$200.0 million to \$180.0 million, which may be expanded to \$300.0 million through additional commitments; and (iv) provide certain other changes to existing terms and covenants. In addition, Amendment No. 5 provides for certain temporary changes during the COVID-19 Relief Period (which began on August 10, 2020 and ends on March 31, 2021, and which may be extended, subject to certain conditions) including: (i) amending the definition of “Effective Advance Rate,” provided that during such period the overall effective advance rate does not exceed 55%; and (ii) removing or changing certain “Excess Concentration Limits” (as defined in the Credit Facility).

Advances under the Credit Facility generally bear interest at 30-day LIBOR, subject to a floor of 0.5%, 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.

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 \$231.0 million as of December 31, 2020, (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 December 31, 2020, and as defined in the performance guaranty of the Credit Facility, we had a net worth of \$517.0 million, asset coverage on our senior securities representing indebtedness of 671.0%, 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 December 31, 2020, we had availability, after adjustments for various constraints based on collateral quality, of \$96.0 million under the Credit Facility and were in compliance with all covenants under the Credit Facility.

Notes Offering

In May 2020, we entered into a dealer manager agreement (“Dealer Manager Agreement”) with our affiliated dealer manager, Gladstone Securities, under which we may sell a maximum of \$350.0 million aggregate principal amount of our 6.00% notes due 2040 (the “Notes”). However, we can only offer for sale up to \$200.0 million aggregate principal amount of the Notes pursuant to a prospectus supplement dated May 22, 2020 and a base prospectus dated July 24, 2019 relating to the registration statement on Form N-2 (File No. 333- 232124) under the Securities Act of 1933, as amended.

The Notes will mature on November 1, 2040. We will pay interest on the Notes on the first day of each month, commencing on the first day of the month following the issuance of such Note. Subject to certain limitations, holders of the Notes will have the option to tender their Notes for redemption at a redemption price of \$22.50 per Note until the earlier of the date upon which our Board of Directors, by resolution, suspends or terminates the optional redemption right of the holders or the date, if any, on which the Notes are listed on Nasdaq Global Select Market or another national securities exchange. In addition, we will repurchase the Notes, upon request, in the event of the holder's death at a redemption price of \$25.00 per Note. Except upon the occurrence of certain events that would constitute a change in control of us or to comply with applicable law, we may not redeem the Notes at our option until the later of (1) the one-year anniversary of the termination of the offering of the Notes and (2) July 1, 2025. After such date, we may, at our sole option, redeem all or a portion of the Notes at a redemption price of \$25.00 per Note. The Notes will be our direct unsecured obligations and rank equal in right of payment with all outstanding and future unsecured, unsubordinated indebtedness issued by us. As of December 31, 2020, no Notes have been issued.

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 December 31, 2020 and March 31, 2020, we had unrecognized, contractual off-balance sheet success fee receivables of \$44.6 million and \$37.6 million (or approximately \$1.34 and \$1.14 per common share), respectively, on our debt investments. Consistent with GAAP, we have not recognized success fee receivables and related income in our accompanying *Consolidated Financial Statements* until earned.

CONTRACTUAL OBLIGATIONS

We 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 December 31, 2020 to be immaterial.

As of December 31, 2020, we have also extended a guaranty on behalf of one of our portfolio companies, Country Club Enterprises, LLC (“CCE”), whereby we have guaranteed \$1.0 million of CCE’s obligations. As of December 31, 2020, 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.

The following table shows our contractual obligations as of December 31, 2020, at cost/liquidation preference:

Contractual Obligations(A)	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Credit Facility(B)	\$ 84,000	\$ —	\$ 84,000	\$ —	\$ —
Mandatorily redeemable preferred stock	151,871	—	57,500	94,371	—
Secured borrowing	5,096	—	—	5,096	—
Interest payments on obligations(C)	48,873	13,555	24,925	10,393	—
Total	\$289,840	\$ 13,555	\$166,425	\$109,860	\$ —

- (A) Excludes unused line of credit and delayed draw term loan commitments and guaranties to our portfolio companies in the aggregate principal amount of \$6.5 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 December 31, 2020. 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 accompanying *Notes to Consolidated Financial Statements* included elsewhere in this Quarterly Report. Additionally, refer to Note 3 — *Investments* in the accompanying *Notes to Consolidated Financial Statements* included elsewhere in this Quarterly 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 accompanying *Notes to Consolidated Financial Statements* included elsewhere in this Quarterly 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 December 31, 2020 and March 31, 2020:

Rating	December 31, 2020	March 31, 2020
Highest	9.0	9.0
Average	6.2	6.5
Weighted-average	6.5	6.9
Lowest	3.0	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—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 December 31, 2020 and March 31, 2020.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The prices of securities held by us may decline in response to certain events, including those directly involving the companies whose securities are owned by us; conditions affecting the general economy, including COVID-19 or other health emergencies; 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 December 31, 2020 and March 31, 2020, 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:	December 31, 2020	March 31, 2020
Variable rates with a floor	97.7%	97.5%
Fixed rates	2.3	2.5
Total	100.0%	100%

There have been no material changes in the quantitative and qualitative market risk disclosures during the nine months ended December 31, 2020 from those included in our Annual Report.

ITEM 4. CONTROLS AND PROCEDURES.

a) Evaluation of Disclosure Controls and Procedures

As of December 31, 2020 (the end of the period covered by this report), we, including our chief executive officer and chief financial officer, evaluated the effectiveness, design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective at a reasonable assurance level in timely alerting management, including the chief executive officer and chief financial officer, of material information about us required to be included in periodic SEC filings. However, in evaluation of the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

b) Changes in Internal Control over Financial Reporting

There were no changes in internal controls for the three months ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS.**

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

ITEM 1A. RISK FACTORS.

Our business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our securities. For a discussion of these risks, please refer to the section captioned “Item 1A. Risk Factors” in Part I of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, as filed with the SEC on May 12, 2020. The risks described in our Annual Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS

See the exhibit index.

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
3.1	<u>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.</u>
3.1.a	<u>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.</u>
3.1.b	<u>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.</u>
3.1.c	<u>Certificate of Increase of Shares Designated as 6.375% Series E Cumulative Term Preferred Stock due 2025 of Gladstone Investment Corporation incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 814-00704), filed May 21, 2020.</u>
3.2	<u>Second Amended and Restated Bylaws, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 814-00704), filed May 15, 2020.</u>
4.1	<u>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.</u>
4.2	<u>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.</u>
4.3	<u>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.</u>
4.4	<u>Indenture, dated as of May 22, 2020, between Gladstone Investment Corporation and UMB Bank, National Association, as trustee incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K (File No. 814-00704), filed May 22, 2020.</u>
4.5	<u>First Supplemental Indenture, dated as of May 22, 2020, relating to the 6.00% Notes due 2040, between Gladstone Investment Corporation and UMB Bank, National Association, as trustee incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K (File No. 814-00704), filed May 22, 2020.</u>
4.6	<u>Form of 6.00% Notes due 2040 incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K (File No. 814-00704), filed May 22, 2020 (contained in the First Supplemental Indenture filed as Exhibit 4.2 thereto).</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to section 302 of The Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Chief Financial Officer and Treasurer pursuant to section 302 of The Sarbanes-Oxley Act of 2002.</u>
32.1†	<u>Certification of Chief Executive Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.</u>
32.2†	<u>Certification of Chief Financial Officer and Treasurer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.</u>

* Filed herewith

† Furnished herewith

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

SIGNATURE

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

GLADSTONE INVESTMENT CORPORATION

By: /s/ Julia Ryan

Julia Ryan

Chief Financial Officer and Treasurer

(principal financial and accounting officer)

Date: February 2, 2021

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

I, David Gladstone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Gladstone Investment Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2021

/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 Quarterly Report on Form 10-Q of Gladstone Investment Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2021

/s/ Julia Ryan

Julia Ryan

Chief Financial Officer and Treasurer

**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 Quarterly Report on Form 10-Q for the quarter ended December 31, 2020 ("Form 10-Q"), 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 2, 2021

/s/ David Gladstone

David Gladstone

*Chief Executive Officer and
Chairman of the Board of Directors*

**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 Quarterly Report on Form 10-Q for the quarter ended December 31, 2020 ("Form 10-Q"), 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 2, 2021

/s/ Julia Ryan

Julia Ryan

Chief Financial Officer and Treasurer