



---

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

---

**FORM 10-Q**

---

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

For the quarterly period ended May 31, 2009

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

For the transition period from        to

Commission File No. 001-33376

---

**GSC Investment Corp.**

(Exact name of Registrant as specified in its charter)

---

Maryland  
(State or other jurisdiction of  
incorporation or organization)

20-8700615  
(I.R.S. Employer  
Identification Number)

888 Seventh Ave  
New York, New York 10019  
(Address of principal executive offices)

(212) 884-6200  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

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

The number of outstanding common shares of the registrant as of July 9, 2009 was 8,291,384.

---

---

## TABLE OF CONTENTS

	<u>PAGE</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
• <a href="#">Consolidated Balance Sheets as of May 31, 2009 (unaudited) and February 28, 2009</a>	3
• <a href="#">Consolidated Statement of Operations for the three months ended May 31, 2009 and May 31, 2008 (unaudited)</a>	4
• <a href="#">Consolidated Schedule of Investments as of May 31, 2009 (unaudited) and February 28, 2009</a>	5
• <a href="#">Consolidated Statement of Changes in Net Assets for the three months ended May 31, 2009 and May 31, 2008 (unaudited)</a>	11
• <a href="#">Consolidated Statement of Cash Flows for the three months ended May 31, 2009 and May 31, 2008 (unaudited)</a>	12
• <a href="#">Notes to Consolidated Financial Statements as of May 31, 2009 (unaudited)</a>	13
<a href="#">Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	24
<a href="#">Item 3. Quantitative and Qualitative Disclosures about Market Risk</a>	35
<a href="#">Item 4. Controls and Procedures</a>	36
<a href="#">PART II. OTHER INFORMATION</a>	
<a href="#">Item 1. Legal Proceedings</a>	36
<a href="#">Item 1 A. Risk Factors</a>	36
<a href="#">Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</a>	37
<a href="#">Item 3. Defaults Upon Senior Securities</a>	37
<a href="#">Item 4. Submission of Matters to a Vote of Security Holders</a>	37
<a href="#">Item 5. Other Information</a>	37
<a href="#">Item 6. Exhibits</a>	37
<a href="#">SIGNATURES</a>	38
<a href="#">EX-31.1</a>	
<a href="#">EX-31.2</a>	
<a href="#">EX-32.1</a>	

**GSC Investment Corp.**  
**Consolidated Balance Sheets**

	<b>As of</b>	
	<u>May 31, 2009</u> (unaudited)	<u>February 28, 2009</u>
<b>ASSETS</b>		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$137,234,017 and \$137,020,449, respectively)	\$ 101,983,348	\$ 96,462,919
Control investments (cost of \$29,233,097 and \$29,905,194, respectively)	19,235,848	22,439,029
Affiliate investments (cost of \$0 and \$0, respectively)	4,043	10,527
Total investments at fair value (amortized cost of \$166,467,114 and \$166,925,643, respectively)	<u>121,223,239</u>	<u>118,912,475</u>
Cash and cash equivalents	8,544,000	6,356,225
Cash and cash equivalents, securitization accounts	2,028,951	1,178,201
Outstanding interest rate cap at fair value (cost of \$131,000 and \$131,000, respectively)	75,200	39,513
Interest receivable, net of reserve	3,067,955	3,087,668
Deferred credit facility financing costs, net	483,447	529,767
Management fee receivable	237,306	237,370
Other assets	<u>140,992</u>	<u>321,260</u>
Total assets	<u>\$ 135,801,090</u>	<u>\$ 130,662,479</u>
<b>LIABILITIES</b>		
Revolving credit facility	\$ 57,755,257	\$ 58,994,673
Management and incentive fees payable	3,750,594	2,880,667
Accounts payable and accrued expenses	690,646	700,537
Interest and credit facility fees payable	227,000	72,825
Total liabilities	<u>\$ 62,423,497</u>	<u>\$ 62,648,702</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$.0001 per share, 100,000,000 common shares authorized, 8,291,384 and 8,291,384 common shares issued and outstanding, respectively	829	829
Capital in excess of par value	116,943,738	116,943,738
Accumulated undistributed net investment income	8,686,481	6,122,492
Accumulated undistributed net realized loss from investments and derivatives	(6,953,780)	(6,948,628)
Net unrealized depreciation on investments and derivatives	<u>(45,299,675)</u>	<u>(48,104,654)</u>
Total stockholders' equity	<u>73,377,593</u>	<u>68,013,777</u>
Total liabilities and stockholders' equity	<u>\$ 135,801,090</u>	<u>\$ 130,662,479</u>
<b>NET ASSET VALUE PER SHARE</b>	<u>\$ 8.85</u>	<u>\$ 8.20</u>

See accompanying notes to consolidated financial statements.

**GSC Investment Corp.**  
**Consolidated Statement of Operations**

	For the three months ended May 31, 2009 <u>(unaudited)</u>	For the three months ended May 31, 2008 <u>(unaudited)</u>
<b>INVESTMENT INCOME</b>		
Interest from investments		
Non-Control/Non-Affiliate investments	\$ 3,318,840	\$ 4,459,124
Control investments	868,229	635,386
Total interest income	4,187,069	5,094,510
Interest from cash and cash equivalents	13,191	66,689
Management fee income	520,992	522,739
Other income	43,134	31,423
Total investment income	4,764,386	5,715,361
<b>EXPENSES</b>		
Interest and credit facility financing expenses	642,893	833,198
Base management fees	547,744	748,499
Professional fees	339,780	345,459
Administrator expenses	171,861	248,398
Incentive management fees	322,183	340,107
Insurance	206,017	167,486
Directors fees and expenses	82,000	66,609
General & administrative	59,780	65,037
Other expense	—	3,208
Expenses before expense waiver and reimbursement	2,372,258	2,818,001
Expense reimbursement	(171,861)	(298,113)
Total expenses net of expense waiver and reimbursement	2,200,397	2,519,888
<b>NET INVESTMENT INCOME</b>	<b>2,563,989</b>	<b>3,195,473</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>		
Net realized loss from investments	(5,152)	(287,410)
Net unrealized appreciation/(depreciation) on investments	2,769,292	(84,817)
Net unrealized appreciation/(depreciation) on derivatives	35,687	(11,998)
Net gain/(loss) on investments	2,799,827	(384,225)
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 5,363,816</b>	<b>\$ 2,811,248</b>
<b>WEIGHTED AVERAGE — BASIC AND DILUTED EARNINGS PER COMMON SHARE</b>	<b>\$ 0.65</b>	<b>\$ 0.34</b>
<b>WEIGHTED AVERAGE COMMON STOCK OUTSTANDING — BASIC AND DILUTED</b>	<b>8,291,384</b>	<b>8,291,384</b>

See accompanying notes to consolidated financial statements.

**GSC Investment Corp.**  
**Consolidated Schedule of Investments**  
**May 31, 2009**  
**(unaudited)**

Company (a, c)	Industry	Investment Interest Rate/Maturity	Principal	Cost	Fair Value	% of Stockholders' Equity
<b>Non-control/Non-affiliated investments — 139.0% (b)</b>						
GFSI Inc (d)	Apparel	Senior Secured Notes 10.50%, 6/1/2011	\$ 7,082,000	\$ 7,082,000	\$ 6,834,130	9.3%
Legacy Cabinets, Inc. (d)	Building Products	First Lien Term Loan 7.03%, 8/18/2012	1,433,869	1,418,415	1,100,638	1.5%
Legacy Cabinets, Inc. (d)	Building Products	Second Lien Term Loan 11.03%, 8/18/2013	1,862,420	1,829,306	603,610	0.8%
Total Building Products			<u>3,296,289</u>	<u>3,247,721</u>	<u>1,704,248</u>	<u>2.3%</u>
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.75%, 12/20/2013	32,381	27,281	13,555	0.0%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.75%, 12/20/2013	76,179	64,181	31,889	0.0%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 6.00%, 12/20/2014	92,962	78,320	38,914	0.1%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 6.00%, 12/20/2014	92,962	78,320	38,914	0.1%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 6.00%, 12/20/2014	92,962	78,320	38,914	0.1%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.75%, 12/20/2013	121,428	102,303	50,830	0.1%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.75%, 12/20/2013	231,354	194,916	96,845	0.1%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 7.00%, 12/20/2014	403,388	339,854	168,858	0.2%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 7.00%, 12/20/2014	403,388	339,854	168,858	0.2%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 7.00%, 12/20/2014	403,388	339,854	168,858	0.2%
Total Chemicals			<u>1,950,392</u>	<u>1,643,203</u>	<u>816,435</u>	<u>1.1%</u>
Hopkins Manufacturing Corporation (d)	Consumer Products	Second Lien Term Loan 7.65%, 1/26/2012	3,250,000	3,247,142	2,698,475	3.7%
Targus Group International, Inc. (d)	Consumer Products	First Lien Term Loan 4.95%, 11/22/2012	3,122,943	2,908,557	2,266,007	3.1%
Targus Group International, Inc. (d)	Consumer Products	Second Lien Term Loan 9.17%, 5/22/2013	5,000,000	4,786,474	2,572,500	3.5%
Total Consumer Products			<u>11,372,943</u>	<u>10,942,173</u>	<u>7,536,982</u>	<u>10.3%</u>
CFF Acquisition LLC (d)	Consumer Services	First Lien Term Loan 7.50%, 7/31/2013	308,618	308,618	251,678	0.3%
M/C Communications, LLC (d)	Education	First Lien Term Loan 12.71%, 12/31/2010	1,706,644	1,613,881	469,668	0.6%
Advanced Lighting Technologies, Inc. (d)	Electronics	Second Lien Term Loan 6.35%, 6/1/2014	2,000,000	1,782,420	1,615,200	2.2%
Group Dekko (d)	Electronics	Second Lien Term Loan 10.25%, 1/20/2012	6,670,000	6,670,000	5,398,031	7.4%
IPC Systems, Inc. (d)	Electronics	First Lien Term Loan 3.47%, 3/31/2014	25,274	23,218	17,861	0.0%
Total Electronics			<u>8,695,274</u>	<u>8,475,638</u>	<u>7,031,092</u>	<u>9.6%</u>
USS Mergerco, Inc. (d)	Environmental	Second Lien Term Loan 4.57%, 6/29/2013	5,960,000	5,852,128	4,328,152	5.9%
Bankruptcy Management Solutions, Inc. (d)	Financial Services	Second Lien Term Loan 6.57%, 7/31/2013	4,875,000	4,847,366	3,058,088	4.2%
Big Train, Inc. (d)	Food and Beverage	First Lien Term Loan 7.75%, 3/31/2012	2,428,828	1,670,422	1,755,314	2.4%
IDI Acquisition Corp. (d)	Healthcare Services	Senior Secured Notes 10.75%, 12/15/2011	3,800,000	3,638,016	3,206,820	4.4%
PRACS Institute, LTD (d)	Healthcare Services	Second Lien Term Loan 11.13%, 4/17/2013	4,093,750	4,050,246	3,513,256	4.8%
Total Healthcare Services			<u>7,893,750</u>	<u>7,688,262</u>	<u>6,720,076</u>	<u>9.2%</u>

## Table of Contents

Company (a, c)	Industry	Investment Interest Rate/Maturity	Principal	Cost	Fair Value	% of Stockholders' Equity
McMillin Companies LLC (d)	Homebuilding	Senior Secured Notes 9.53%, 10/31/2013	\$ 7,700,000	\$ 7,322,501	\$ 3,840,760	5.2%
Asurion Corporation (d)	Insurance	First Lien Term Loan 3.63%, 7/3/2014	2,000,000	1,715,424	1,800,400	2.5%
Worldwide Express Operations, LLC (d)	Logistics	First Lien Term Loan 8.50%, 6/30/2013	2,813,134	2,808,281	2,384,413	3.2%
Jason Incorporated (d)	Manufacturing	Unsecured Notes 13.00%, 11/1/2010	12,000,000	12,000,000	8,582,400	11.6%
Jason Incorporated (d)	Manufacturing	Unsecured Notes 13.00%, 11/1/2010	1,700,000	1,700,000	1,215,840	1.7%
Specialized Technology Resources, Inc. (d)	Manufacturing	Second Lien Term Loan 7.32%, 12/15/2014	5,000,000	4,776,655	4,680,000	6.4%
		<b>Total Manufacturing</b>	<b>18,700,000</b>	<b>18,476,655</b>	<b>14,478,240</b>	<b>19.7%</b>
Blaze Recycling & Metals, LLC (d)	Metals	Senior Secured Notes 10.88%, 7/15/2012	2,500,000	2,494,683	1,744,500	2.4%
Elyria Foundry Company, LLC (d)	Metals	Senior Secured Notes 13.00%, 3/1/2013	5,000,000	4,858,152	4,443,500	6.1%
Elyria Foundry Company, LLC	Metals	Warrants	—	—	90,000	0.1%
		<b>Total Metals</b>	<b>7,500,000</b>	<b>7,352,835</b>	<b>6,278,000</b>	<b>8.6%</b>
Abitibi-Consolidated Company of Canada (d, e)	Natural Resources	First Lien Term Loan 11.50%, 3/30/2009	2,948,639	2,948,640	2,265,440	3.1%
Grant U.S. Holdings LLP (d, e)	Natural Resources	Second Lien Term Loan 9.81%, 9/20/2013	6,189,326	6,189,172	795,328	1.1%
		<b>Total Natural Resources</b>	<b>9,137,965</b>	<b>9,137,812</b>	<b>3,060,768</b>	<b>4.2%</b>
Edgen Murray II, L.P. (d)	Oil and Gas	Second Lien Term Loan 6.92%, 5/11/2015	3,000,000	2,820,669	2,111,400	2.9%
Energy Alloys, LLC (d)	Oil and Gas	Second Lien Term Loan 13.25%, 10/5/2012	6,200,000	6,200,000	5,872,640	8.0%
		<b>Total Oil and Gas</b>	<b>9,200,000</b>	<b>9,020,669</b>	<b>7,984,040</b>	<b>10.9%</b>
Stronghaven, Inc. (d)	Packaging	Second Lien Term Loan 13.00%, 10/31/2010	2,500,000	2,500,000	2,411,500	3.3%
Terphane Holdings Corp. (d, e)	Packaging	Senior Secured Notes 12.50%, 6/15/2009	4,850,000	4,848,853	3,981,365	5.4%
Terphane Holdings Corp. (d, e)	Packaging	Senior Secured Notes 12.50%, 6/15/2009	5,087,250	5,086,153	4,176,124	5.7%
Terphane Holdings Corp. (d, e)	Packaging	Senior Secured Notes 12.02%, 6/15/2009	500,000	499,956	410,450	0.6%
		<b>Total Packaging</b>	<b>12,937,250</b>	<b>12,934,962</b>	<b>10,979,439</b>	<b>15.0%</b>
Custom Direct, Inc. (d)	Printing	First Lien Term Loan 3.97%, 12/31/2013	2,044,494	1,630,223	1,747,633	2.4%
Advanstar Communications Inc. (d)	Publishing	First Lien Term Loan 3.47%, 5/31/2014	1,965,000	1,562,506	1,031,625	1.4%
Affinity Group, Inc. (d)	Publishing	First Lien Term Loan 8.61%, 3/31/2010	475,018	461,921	454,735	0.6%

## Table of Contents

Company (a, c)	Industry	Investment Interest Rate/Maturity	Principal	Cost	Fair Value	% of Stockholders' Equity
Affinity Group, Inc. (d)	Publishing	First Lien Term Loan 8.41%, 3/31/2010	\$ 510,071	\$ 496,022	\$ 488,292	0.7%
Brown Publishing Company (d)	Publishing	Second Lien Term Loan 8.76%, 9/19/2014	1,203,226	1,198,610	346,649	0.5%
Network Communications, Inc. (d)	Publishing	Unsecured Notes 10.75%, 12/1/2013	5,000,000	5,080,301	2,877,500	3.9%
Penton Media, Inc. (d)	Publishing	First Lien Term Loan 3.22%, 2/1/2013	4,885,189	3,769,784	2,914,991	4.0%
<b>Total Publishing</b>			<b>14,038,504</b>	<b>12,569,144</b>	<b>8,113,792</b>	<b>11.1%</b>
GXS Worldwide, Inc. (d)	Software	Second Lien Term Loan 13.75%, 9/30/2013	1,000,000	894,099	810,000	1.1%
<b>Sub Total Non-control/Non-affiliated investments</b>				<b>137,234,017</b>	<b>101,983,348</b>	<b>139.0%</b>
<b>Control investments — 26.2% (b)</b>						
GSC Partners CDO GP III, LP (h)	Financial Services	100% General Partnership interest		—	28,265	0.1%
GSC Investment Corp. CLO 2007 LTD. (f, h)	Structured Finance Securities	Other/Structured Finance Securities 11.23%, 1/21/2020	30,000,000	29,233,097	19,207,583	26.2%
<b>Sub Total Control investments</b>				<b>29,233,097</b>	<b>19,235,848</b>	<b>26.2%</b>
<b>Affiliate investments — 0.0% (b)</b>						
GSC Partners CDO GP III, LP (g)	Financial Services	6.24% Limited Partnership interest		—	4,043	0.0%
<b>TOTAL INVESTMENT ASSETS — 165.2% (b)</b>			<b>\$ 166,467,114</b>	<b>\$ 121,223,239</b>	<b>165.2%</b>	

Outstanding interest rate cap	Interest rate	Maturity	Notional	Cost	Fair value	% of Stockholders' Equity
Interest rate cap	8.0%	2/9/2014	\$ 40,000,000	\$ 87,000	\$ 51,717	0.1%
Interest rate cap	8.0%	11/30/2013	26,433,408	44,000	23,483	0.0%
<b>Sub Total Outstanding interest rate cap</b>				<b>\$ 131,000</b>	<b>\$ 75,200</b>	<b>0.1%</b>

- (a) All of the Fund's equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Abitibi-Consolidated Company of Canada, Grant U.S. Holdings LLP, GSC Investment Corp. CLO 2007, Terphane Holdings Corp., and GSC Partners CDO GP III, LP.
- (b) Percentages are based on net assets of \$73,377,593 as of May 31, 2009.
- (c) Fair valued investment (see Note 2 to the consolidated financial statements).
- (d) All or a portion of the securities are pledged as collateral under a revolving securitized credit facility (see Note 6 to the consolidated financial statements).
- (e) Non-U.S. company. The principal place of business for Terphane Holdings Corp is Brazil, and for Abitibi-Consolidated Company of Canada and Grant U.S. Holdings LLP is Canada.
- (f) 11.23% represents the modeled effective interest rate that is expected to be earned over the life of the investment.
- (g) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was an Affiliate are as follows:

Company	Purchases	Redemptions	Sales (cost)	Interest Income	Management fee income	Net Realized gains/(losses)	Net unrealized gains/(losses)
GSC Partners CDO GP III, LP	\$—	\$—	\$—	\$—	\$—	\$—	\$(6,484)

- (h) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities. In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions	Sales (cost)	Interest Income	Management fee income	Net Realized gains/(losses)	Net unrealized gains/(losses)
GSC Investment Corp. CLO 2007 LTD.	\$—	\$—	\$—	\$868,229	\$520,992	\$—	\$(2,460,938)
GSC Partners CDO GP III, LP	\$—	\$—	\$—	\$—	\$—	\$—	(70,147)



**GSC Investment Corp.**  
**Consolidated Schedule of Investments**  
**February 28, 2009**

Company (a, c)	Industry	Investment Interest Rate/Maturity	Principal	Cost	Fair Value	% of Stockholders' Equity
<b>Non-control/Non-affiliated investments — 141.8% (b)</b>						
GFSI Inc (d)	Apparel	Senior Secured Notes 10.50%, 6/1/2011	\$ 7,082,000	\$ 7,082,000	\$ 6,616,004	9.7%
Legacy Cabinets, Inc. (d)	Building Products	First Lien Term Loan 5.75%, 8/18/2012	1,437,555	1,420,872	975,956	1.4%
Legacy Cabinets, Inc. (d)	Building Products	Second Lien Term Loan 9.75%, 8/18/2013	1,862,420	1,828,197	450,519	0.7%
	<b>Total Building Products</b>		<u>3,299,975</u>	<u>3,249,069</u>	<u>1,426,475</u>	<u>2.1%</u>
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.75%, 12/20/2013	32,381	27,281	6,152	0.0%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.47%, 12/20/2013	77,141	64,991	14,657	0.0%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.16%, 12/20/2014	92,962	78,320	17,663	0.0%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.16%, 12/20/2014	92,962	78,320	17,663	0.0%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.16%, 12/20/2014	92,962	78,320	17,663	0.0%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.75%, 12/20/2013	121,428	102,303	23,071	0.0%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 5.75%, 12/20/2013	231,354	194,916	43,957	0.1%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 7.00%, 12/20/2014	403,388	339,854	76,644	0.1%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 7.00%, 12/20/2014	403,388	339,854	76,644	0.1%
Lyondell Chemical Company (d)	Chemicals	First Lien Term Loan 7.00%, 12/20/2014	403,388	339,854	76,644	0.1%
	<b>Total Chemicals</b>		<u>1,951,354</u>	<u>1,644,013</u>	<u>370,758</u>	<u>0.4%</u>
Hopkins Manufacturing Corporation (d)	Consumer Products	Second Lien Term Loan 7.70%, 1/26/2012	3,250,000	3,246,870	2,627,950	3.9%
Targus Group International, Inc. (d)	Consumer Products	First Lien Term Loan 4.67%, 11/22/2012	3,122,943	2,895,723	2,089,561	3.1%
Targus Group International, Inc. (d)	Consumer Products	Second Lien Term Loan 9.75%, 5/22/2013	5,000,000	4,777,205	3,126,000	4.6%
	<b>Total Consumer Products</b>		<u>11,372,943</u>	<u>10,919,798</u>	<u>7,843,511</u>	<u>11.6%</u>
CFF Acquisition LLC (d)	Consumer Services	First Lien Term Loan 8.57%, 7/31/2013	308,912	308,912	243,793	0.4%
M/C Communications, LLC (d)	Education	First Lien Term Loan 13.12%, 12/31/2010	1,697,164	1,590,350	674,283	1.0%
Advanced Lighting Technologies, Inc. (d)	Electronics	Second Lien Term Loan 8.53%, 6/1/2014	2,000,000	1,771,457	1,503,200	2.2%
Group Dekko (d)	Electronics	Second Lien Term Loan 6.45%, 1/20/2012	6,670,000	6,670,000	5,321,326	7.8%
IPC Systems, Inc. (d)	Electronics	First Lien Term Loan 3.71%, 3/31/2014	46,332	42,367	24,621	0.0%
	<b>Total Electronics</b>		<u>8,716,332</u>	<u>8,483,824</u>	<u>6,849,147</u>	<u>10.0%</u>
USS Mergerco, Inc. (d)	Environmental	Second Lien Term Loan 4.73%, 6/29/2013	5,960,000	5,846,833	3,592,092	5.3%
Bankruptcy Management Solutions, Inc. (d)	Financial Services	Second Lien Term Loan 6.70%, 7/31/2013	4,887,500	4,858,282	3,053,221	4.5%
Big Train, Inc. (d)	Food and Beverage	First Lien Term Loan 4.98%, 3/31/2012	2,478,660	1,671,647	1,706,557	2.5%
IDI Acquisition Corp. (d)	Healthcare Services	Senior Secured Notes 10.75%, 12/15/2011	3,800,000	3,623,605	2,428,580	3.6%
PRACS Institute, LTD (d)	Healthcare Services	Second Lien Term Loan 11.13%, 4/17/2013	4,093,750	4,047,419	3,581,213	5.3%
	<b>Total Healthcare Services</b>		<u>7,893,750</u>	<u>7,671,024</u>	<u>6,009,793</u>	<u>8.9%</u>
McMillin Companies LLC (d)	Homebuilding	Senior Secured Notes 9.53%, 4/30/2012	7,700,000	7,294,643	3,489,640	5.1%
Asurion Corporation (d)	Insurance	First Lien Term Loan 3.76%, 7/3/2014	2,000,000	1,704,665	1,493,400	2.2%
Worldwide Express Operations, LLC (d)	Logistics	First Lien Term Loan 6.95%, 6/30/2013	2,820,779	2,815,612	2,133,637	3.1%
Jason Incorporated (d)	Manufacturing	Unsecured Notes 13.00%, 11/1/2010	12,000,000	12,000,000	8,652,000	12.7%

## Table of Contents

Company (a, c)	Industry	Investment Interest Rate/Maturity	Principal	Cost	Fair Value	% of Stockholders' Equity
Jason Incorporated (d)	Manufacturing	Unsecured Notes 13.00%, 11/1/2010	\$ 1,700,000	\$ 1,700,000	\$ 1,225,700	1.8%
Specialized Technology Resources, Inc. (d)	Manufacturing	Second Lien Term Loan 7.48%, 12/15/2014	5,000,000	4,769,304	4,602,000	6.8%
		<b>Total Manufacturing</b>	<b>18,700,000</b>	<b>18,469,304</b>	<b>14,479,700</b>	<b>21.3%</b>
Blaze Recycling & Metals, LLC (d)	Metals	Senior Secured Notes 10.88%, 7/15/2012	2,500,000	2,494,342	1,850,500	2.7%
Elyria Foundry Company, LLC (d)	Metals	Senior Secured Notes 13.00%, 3/1/2013	5,000,000	4,853,894	3,753,000	5.5%
Elyria Foundry Company, LLC	Metals	Warrants	—	—	89,610	0.1%
		<b>Total Metals</b>	<b>7,500,000</b>	<b>7,348,236</b>	<b>5,693,110</b>	<b>8.3%</b>
Abitibi-Consolidated Company of Canada (d, e)	Natural Resources	First Lien Term Loan 11.50%, 3/30/2009	2,948,640	2,940,073	2,081,740	3.1%
Grant U.S. Holdings LLP (d, e)	Natural Resources	Second Lien Term Loan 9.81%, 9/20/2013	6,139,928	6,139,764	2,388,432	3.5%
		<b>Total Natural Resources</b>	<b>9,088,568</b>	<b>9,079,837</b>	<b>4,470,172</b>	<b>6.6%</b>
Edgen Murray II, L.P. (d)	Oil and Gas	Second Lien Term Loan 7.24%, 5/11/2015	3,000,000	2,815,938	2,072,700	3.0%
Energy Alloys, LLC (d)	Oil and Gas	Second Lien Term Loan 11.75%, 10/5/2012	6,200,000	6,200,000	5,286,740	7.8%
		<b>Total Oil and Gas</b>	<b>9,200,000</b>	<b>9,015,938</b>	<b>7,359,440</b>	<b>10.8%</b>
Stronghaven, Inc. (d)	Packaging	Second Lien Term Loan 13.00%, 10/31/2010	2,500,000	2,500,000	2,375,500	3.5%
Terphane Holdings Corp. (d, e)	Packaging	Senior Secured Notes 12.50%, 6/15/2009	4,850,000	4,846,976	3,575,420	5.3%
Terphane Holdings Corp. (d, e)	Packaging	Senior Secured Notes 12.50%, 6/15/2009	5,087,250	5,084,820	3,750,321	5.5%
Terphane Holdings Corp. (d, e)	Packaging	Senior Secured Notes 12.02%, 6/15/2009	500,000	499,670	368,600	0.5%
		<b>Total Packaging</b>	<b>12,937,250</b>	<b>12,931,466</b>	<b>10,069,841</b>	<b>14.8%</b>
Custom Direct, Inc. (d)	Printing	First Lien Term Loan 4.21%, 12/31/2013	2,049,694	1,618,148	1,638,526	2.4%
Advanstar Communications Inc. (d)	Publishing	First Lien Term Loan 3.71%, 5/31/2014	1,970,000	1,553,133	807,700	1.2%
Affinity Group, Inc. (d)	Publishing	First Lien Term Loan 3.01%, 6/24/2009	476,261	468,285	418,872	0.6%
Affinity Group, Inc. (d)	Publishing	First Lien Term Loan 2.98%, 6/24/2009	511,811	503,239	450,137	0.7%
Brown Publishing Company (d)	Publishing	Second Lien Term Loan 8.76%, 9/19/2014	1,203,226	1,198,390	288,774	0.4%
Network Communications, Inc. (d)	Publishing	Unsecured Notes 10.75%, 12/1/2013	5,000,000	5,082,100	2,503,000	3.7%
Penton Media, Inc. (d)	Publishing	First Lien Term Loan 3.35%, 2/1/2013	4,897,651	3,723,761	2,008,037	3.0%
		<b>Total Publishing</b>	<b>14,058,949</b>	<b>12,528,908</b>	<b>6,476,520</b>	<b>9.6%</b>
GXS Worldwide, Inc. (d)	Software	Second Lien Term Loan 8.63%, 9/30/2013	1,000,000	887,940	773,299	1.2%
<b>Sub Total Non-control/Non-affiliated investments</b>				<b>137,020,449</b>	<b>96,462,919</b>	<b>141.8%</b>
<b>Control investments — 33.0% (b)</b>						
GSC Partners CDO GP III, LP (h)	Financial Services	100% General Partnership interest		—	98,412	0.1%

[Table of Contents](#)

Company (a, c)	Industry	Investment Interest Rate/Maturity	Principal	Cost	Fair Value	% of Stockholders' Equity
GSC Investment Corp. CLO 2007 LTD. (f, h)	Structured Finance Securities	Other/Structured Finance Securities 12.15%, 1/21/2020	\$ 30,000,000	\$ 29,905,194	\$ 22,340,617	32.9%
<b>Sub Total Control investments</b>				<u>29,905,194</u>	<u>22,439,029</u>	<u>33.0%</u>
<b>Affiliate investments — 0.0% (b)</b>						
GSC Partners CDO GP III, LP (g)	Financial Services	6.24% Limited Partnership interest		—	10,527	0.0%
<b>TOTAL INVESTMENT ASSETS — 174.8% (b)</b>				<u>\$ 166,925,643</u>	<u>\$ 118,912,475</u>	<u>174.8%</u>

  

Outstanding interest rate cap	Interest rate	Maturity	Notional	Cost	Fair value	% of Stockholders' Equity
Interest rate cap	8.0%	2/9/2014	\$ 40,000,000	\$ 87,000	\$ 27,682	0.0%
Interest rate cap	8.0%	11/30/2013	26,433,408	44,000	11,831	0.0%
<b>Sub Total Outstanding interest rate cap</b>				<u>\$ 131,000</u>	<u>\$ 39,513</u>	<u>0.1%</u>

- (a) All of the Fund's equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Abitibi-Consolidated Company of Canada, Grant U.S. Holdings LLP, GSC Investment Corp. CLO 2007, Terphane Holdings Corp., and GSC Partners CDO GP III, LP.
- (b) Percentages are based on net assets of \$68,013,777 as of February 28, 2009.
- (c) Fair valued investment (see Note 2 to the consolidated financial statements).
- (d) All or a portion of the securities are pledged as collateral under a revolving securitized credit facility (see Note 6 to the consolidated financial statements).
- (e) Non-U.S. company. The principal place of business for Terphane Holdings Corp is Brazil, and for Abitibi-Consolidated Company of Canada and Grant U.S. Holdings LLP is Canada.
- (f) 12.15% represents the modeled effective interest rate that is expected to be earned over the life of the investment.
- (g) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was an Affiliate are as follows:

Company	Purchases	Redemptions	Sales (cost)	Interest Income	Management fee income	Net Realized gains/(losses)	Net unrealized gains/(losses)
GSC Partners CDO GP III, LP	\$—	\$—	\$—	\$—	\$—	\$—	\$(5,706)

- (h) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities. In addition, as defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions	Sales (cost)	Interest Income	Management fee income	Net Realized gains/(losses)	Net unrealized gains/(losses)
GSC Investment Corp. CLO 2007 LTD.	\$—	\$—	\$—	\$4,393,818	\$2,049,717	\$—	\$(6,479,722)
GSC Partners CDO GP III, LP	\$—	\$—	\$—	\$—	\$—	\$—	(61,741)

**GSC Investment Corp.**  
**Consolidated Statements of Changes in Net Assets**

	For the three months ended May 31, 2009 (unaudited)	For the three months ended May 31, 2008 (unaudited)
<b>OPERATIONS:</b>		
Net investment income	\$ 2,563,989	3,195,473
Net realized loss from investments	(5,152)	(287,410)
Net unrealized appreciation/(depreciation) on investments	2,769,292	(84,817)
Net unrealized appreciation/(depreciation) on derivatives	35,687	(11,998)
Net increase in net assets from operations	<u>5,363,816</u>	<u>2,811,248</u>
<b>SHAREHOLDER DISTRIBUTIONS:</b>		
Distributions declared	—	(3,233,640)
Net decrease in net assets from shareholder distributions	<u>—</u>	<u>(3,233,640)</u>
Total increase/(decrease) in net assets	5,363,816	(422,392)
Net assets at beginning of period	68,013,777	97,869,040
Net assets at end of period	<u>\$ 73,377,593</u>	<u>\$ 97,446,648</u>
Net asset value per common share	\$ 8.85	\$ 11.75
Common shares outstanding at end of period	8,291,384	8,291,384

See accompanying notes to consolidated financial statements.

**GSC Investment Corp.**  
**Consolidated Statements of Cash Flows**

	For the three months ended May 31, 2009 (unaudited)	For the three months ended May 31, 2008 (unaudited)
<b>Operating activities</b>		
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 5,363,816	\$ 2,811,248
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES:		
Paid-in-kind interest income	(193,771)	(300,430)
Net accretion of discount on investments	(274,406)	(292,704)
Amortization of deferred credit facility financing costs	71,320	44,447
Net realized loss from investments	5,152	287,410
Net unrealized (appreciation) depreciation on investments	(2,769,292)	84,817
Unrealized (appreciation) depreciation on derivatives	(35,687)	11,998
Proceeds from sale and redemption of investments	921,553	32,938,412
Purchase of investments	—	(16,254,292)
(Increase) decrease in operating assets and liabilities:		
Cash and cash equivalents, securitization accounts	(850,750)	4,460,928
Interest receivable	19,713	(1,355,331)
Due from manager	—	896,336
Management fee receivable	64	(522,739)
Other assets	180,268	(50,159)
Receivable from unsettled trades	—	(493,125)
Payable for unsettled trades	—	(332,220)
Management and incentive fees payable	869,927	145,545
Accounts payable and accrued expenses	(9,891)	(127,004)
Interest and credit facility fees payable	154,175	(46,919)
Due to manager	—	18,188
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,452,191</u>	<u>21,924,406</u>
<b>Financing activities</b>		
Borrowings on debt	—	2,200,000
Paydowns on debt	(1,239,416)	(20,000,000)
Credit facility financing cost	(25,000)	—
Payments of cash dividends	—	(3,233,640)
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,264,416)</u>	<u>(21,033,640)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	2,187,775	890,766
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,356,225	1,072,641
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 8,544,000</u>	<u>\$ 1,963,407</u>
Supplemental Information:		
Interest paid during the period	\$ 417,398	\$ 543,362
Supplemental non-cash information		
Paid-in-kind interest income	\$ 193,771	\$ 300,430
Net accretion of discount on investments	\$ 274,406	\$ 292,704
Amortization of deferred credit facility financing costs	\$ 71,320	\$ 44,447

See accompanying notes to consolidated financial statements.

GSC INVESTMENT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1. Organization and Basis of Presentation**

GSC Investment Corp. (the “Company”, “we” and “us”) is a non-diversified closed end management investment company incorporated in Maryland that has elected to be treated and is regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). We commenced operations on March 23, 2007 and completed our initial public offering (“IPO”) on March 28, 2007. We have elected to be treated as a regulated investment company (“RIC”) under subchapter M of the Internal Revenue Code. We expect to continue to qualify and to elect to be treated for tax purposes as a RIC. Our investment objectives are to generate both current income and capital appreciation through debt and equity investments by primarily investing in private middle market companies and select high yield bonds.

GSC Investment, LLC (the “LLC”) was organized in May 2006 as a Maryland limited liability company. As of February 28, 2007, the LLC had not yet commenced its operations and investment activities.

On March 21, 2007, the Company was incorporated and concurrently, the LLC was merged with and into the Company in accordance with the procedure for such merger in the LLC’s limited liability company agreement and Maryland law. In connection with such merger, each outstanding common share of the LLC was converted into an equivalent number of shares of common stock of the Company and the Company is the surviving entity.

We are externally managed and advised by our investment adviser, GSCP (NJ), L.P. (individually and collectively with its affiliates, “GSC Group” or the “Manager”), pursuant to an investment advisory and management agreement.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of the Company and its special purpose financing subsidiaries, GSC Investment Funding, LLC and GSC Investment Funding II, LLC. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All intercompany accounts and transactions have been eliminated in consolidation. All references made to the “Company,” “we,” and “us” in the financial statements encompassing of these consolidated subsidiaries, except as stated otherwise.

**Note 2. Summary of Significant Accounting Policies**

**Use of Estimates in the Preparation of Financial Statements**

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value.

**Cash and cash equivalents, Securitization Accounts**

Cash and cash equivalents, securitization accounts include amounts held in designated bank accounts in the form of cash and short-term liquid investments in money market funds representing payments received on securitized investments or other reserved amounts associated with the Company’s securitization facilities. The Company is required to use a portion of these amounts to pay interest expense, reduce borrowings, or pay other amounts in accordance with the related securitization agreements. Cash held in such accounts may not be available for the general use of the Company.

## **Risk Management**

In the ordinary course of its business, the Company manages a variety of risks, including market risk and credit risk. Market risk is the risk of potential adverse changes to the value of investments because of changes in market conditions such as interest rate movements and volatility in investment prices.

Credit risk is the risk of default or non-performance by portfolio companies equivalent to the investment's carrying amount.

The Company is also exposed to credit risk related to maintaining all of its cash and cash equivalents including those in securitization accounts at a major financial institution and credit risk related to the derivative counterparty.

The Company has investments in lower rated and comparable quality unrated high yield bonds and bank loans. Investments in high yield investments are accompanied by a greater degree of credit risk. The risk of loss due to default by the issuer is significantly greater for holders of high yield securities, because such investments are generally unsecured and are often subordinated to other creditors of the issuer.

## **Investment Classification**

The Company classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, "Control Investments" are defined as investments in companies in which we own more than 25% of the voting securities or maintain greater than 50% of the board representation. Under the 1940 Act, "Affiliated Investments" are defined as those non-control investments in companies in which we own between 5% and 25% of the voting securities. Under the 1940 Act, "Non-affiliated Investments" are defined as investments that are neither Control Investments or Affiliated Investments.

## **Investment Valuation**

The fair value of the Company's assets and liabilities which qualify as financial instruments under Statement of Financial Accounting Standards No. 107, "Disclosure About Fair Value of Financial Instruments," approximates the carrying amounts presented in the consolidated balance sheets.

Investments for which market quotations are readily available are fair valued at such market quotations obtained from independent third party pricing services and market makers subject to any decision by our board of directors to make a fair value determination to reflect significant events affecting the value of these investments. We value investments for which market quotations are not readily available as stated above at fair value as determined in good faith by our board of directors based on input from our Manager, our audit committee and, if our board or audit committee so request, a third party independent valuation firm. Determinations of fair value may involve subjective judgments and estimates. The types of factors that may be considered in a fair value pricing include the nature and realizable value of any collateral, the portfolio company's ability to make payments, market yield trend analysis, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors.

We undertake a multi-step valuation process each quarter when valuing investments for which market quotations are not readily available, as described below:

- Each investment is initially valued by the responsible investment professionals and preliminary valuation conclusions are documented and discussed with our senior management; and
- An independent valuation firm engaged by our board of directors reviews at least one quarter of these preliminary valuations each quarter so that the valuation of each investment for which market quotes are not readily available is reviewed by the independent valuation firm at least annually.

In addition, all our investments are subject to the following valuation process.

- The audit committee of our board of directors reviews each preliminary valuation and our investment adviser and independent valuation firm (if applicable) will supplement the preliminary valuation to reflect any comments provided by the audit committee; and
- Our board of directors discuss the valuations and determine the fair value of each investment in good faith based on the input of our investment adviser, independent valuation firm (if applicable) and audit committee.

Our equity investment in GSC Investment Corp. CLO 2007, Ltd. ("GSCIC CLO") is carried at fair value, which is based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for similar CLO equity, when available, as determined by our investment advisor and recommended to our board of directors.

## [Table of Contents](#)

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value by our board of directors may differ materially from the values that would have been used if a ready market for these investments existed and such differences could be material. Our net asset value could be materially affected if the determinations regarding the fair value of our investments were materially higher or lower than the values that we may ultimately realize upon the disposal of such investments.

We account for derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", ("FAS 133") as amended. FAS 133 requires recognizing all derivative instruments as either assets or liabilities on the consolidated balance sheets at fair value. The Company values derivative contracts at the closing fair value provided by the counterparty. Changes in the values of derivative contracts are included in the consolidated statement of operations.

### **Income Recognition**

Purchases and sales of investments and the related realized gains or losses are recorded on a trade-date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible. If any cash is received after it is determined that interest is no longer collectible, we will treat the cash as payment on the principal balance until the entire principal balance has been repaid, before any interest income is recognized. Discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortizations of premium on investments.

Loans are generally placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. A reserve for accrued interest is generally made when a loan is placed on non-accrual status. However, the Company may also establish a reserve against accrued interest on currently performing loans if there is doubt regarding future collectability. For the three months ended May 31, 2009, the Company established a reserve against accrued interest of \$0.3 million. The Company did not previously have such a reserve. Interest payments received on non-accrual loans may be recognized as principal depending upon management's judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this if the loan has sufficient collateral value and is in the process of collection.

Interest income on our investment in GSCIC CLO is recorded using the effective interest method in accordance with the provision of EITF 99-20, based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the investment from the date the estimated yield was changed.

### **Paid-in-Kind Interest**

The Company includes in income certain amounts that it has not yet received in cash, such as contractual paid-in-kind interest ("PIK"), which represents contractually deferred interest added to the investment balance that is generally due at maturity. We stop accruing PIK if we do not expect the issuer to be able to pay all principal and interest when due.

### **Deferred Credit Facility Financing Costs**

Financing costs incurred in connection with each respective credit facility have been deferred and are being amortized using the straight line method over the life of each respective facility.

### **Indemnifications**

In the ordinary course of its business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on its history and experience, management feels that the likelihood of such an event is remote.

### **Income Taxes**

The Company has filed an election to be treated for tax purposes as a RIC under Subchapter M of the Code and, among other things, intends to make the requisite distributions to its stockholders which will relieve the Company from federal income taxes. Therefore, no provision has been recorded for federal income taxes.



## [Table of Contents](#)

In order to qualify as a RIC, among other requirements, the Company is required to timely distribute to its stockholders at least 90% of its investment company taxable income, as defined by the Code, for each fiscal tax year. The Company will be subject to a nondeductible U.S. federal excise tax of 4% on undistributed income if we do not distribute at least 98% of our investment company taxable income in any calendar year and 98% of our capital gain net income for each one-year period ending on October 31.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned.

The Company has adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB No. 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In May 2007, the FASB issued Staff Position, FIN 48-1, “Definition of Settlement in FASB Interpretation No. 48” (“FSP FIN 48-1”), which provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective with the initial adoption of FIN 48. The adoption of FIN 48 and FSP FIN 48-1 did not have a material impact on our consolidated financial statements.

### **Dividends**

Dividends to common stockholders are recorded on the ex-dividend date. The amount to be paid out as a dividend is determined by the board of directors. Net realized capital gains, if any, are generally distributed at least annually, although we may decide to retain such capital gains for reinvestment.

The Company has adopted a dividend reinvestment plan that provides for reinvestment of our dividend distributions on behalf of our stockholders unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not “opted out” of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends. If the Company’s common stock is trading below net asset value at the time of valuation, the plan administrator will receive the dividend or distribution in cash and will purchase common stock in the open market, on the New York Stock Exchange or elsewhere, for the account of each Participant.

### **New Accounting Pronouncements**

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“FAS 161”). The objective of FAS 161 is to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. FAS 161 improves transparency about the location and amounts of derivative instruments in an entity’s financial statements; how derivative instruments and related hedged items are accounted for under FAS 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. FAS 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity’s liquidity by requiring disclosure of derivative features that are credit risk related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this pronouncement did not have a material impact on the reporting of the Company’s derivatives.

In October 2008, the FASB issued FASB Staff Position (“FSP”) No. 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” FSP No. 157-3 clarifies the application of FAS No. 157 in a market that is not active. More specifically, FSP No. 157-3 states that significant judgment should be applied to determine if observable data in a dislocated market represents forced liquidations or distressed sales and are not representative of fair value in an orderly transaction. FSP No. 157-3 also provides further guidance that the use of a reporting entity’s own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available. In addition, FSP No. 157-3 provides guidance on the level of reliance of broker quotes or pricing services when measuring fair value in a non active market stating that less reliance should be placed on a quote that does not reflect actual market transactions and a quote that is not a binding offer. The guidance in FSP No. 157-3 is effective upon issuance for all financial statements that have not been issued and any changes in valuation techniques as a result of applying FSP No. 157-3 are accounted for as a change in accounting estimate.

## [Table of Contents](#)

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 provides additional guidance for estimating fair value under Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" when there is an inactive market or the market is not orderly. This FSP is effective for interim and annual periods ending after June 15, 2009. Management is currently evaluating the impact of FSP 157-4 on our consolidated financial statements.

### Note 3. Investments

The Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157") as of March 1, 2008, which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. As defined in FAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Investments carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 – Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable-market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level III information, assuming no additional corroborating evidence.

In addition to using the above inputs in investment valuations, we continue to employ the valuation policy approved by our board of directors that is consistent with FAS 157 (see Note 2). Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The following table presents fair value measurements of investments as of May 31, 2009 (dollars in thousands):

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Non-control/non-affiliate investments	\$ —	\$ —	\$ 101,983	\$ 101,983
Control investments	—	—	19,236	19,236
Affiliate investments	—	—	4	4
Total investments at fair value	\$ —	\$ —	\$ 121,223	\$ 121,223

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the three months ended May 31, 2009 (dollars in thousands):

	Level 3
Balance as of February 28, 2009	\$ 118,912
Net unrealized gains	2,769
Purchases and other adjustments to cost	463
Sales and redemptions	(921)
Net transfers in and/or out	—
Balance as of May 31, 2009	\$ 121,223

Purchases and other adjustments to cost include new investments at cost, effects of refinancing/restructuring, accretion income from discount on debt securities, and PIK.

## [Table of Contents](#)

Sales and redemptions represent net proceeds received and realized gains and losses from investments sold during the period.

Net transfers in and/or out represent existing investments that were either previously categorized as a higher level and the inputs to the model became unobservable or investments that were previously classified as the lowest significant input became observable during the period. These investments are recorded at their end of period fair values.

The composition of our investments as of May 31, 2009, at amortized cost and fair value were as follows (dollars in thousands):

	<b>Investments at Amortized Cost</b>	<b>Investments at Fair Value</b>	<b>Fair Value Percentage of Total Portfolio</b>
First lien term loans	\$ 24,979	\$ 19,765	16.3%
Second lien term loans	57,644	40,815	33.7
Senior secured notes	35,831	28,637	23.6
Unsecured notes	18,780	12,676	10.5
Structured Finance Securities	29,233	19,208	15.8
Equity/limited partnership interest	—	122	0.1
<b>Total</b>	<b>\$ 166,467</b>	<b>\$ 121,223</b>	<b>100.0%</b>

The composition of our investments as of February 28, 2009, at amortized cost and fair value were as follows (dollars in thousands):

	<b>Investments at Amortized Cost</b>	<b>Investments at Fair Value</b>	<b>Fair Value Percentage of Total Portfolio</b>
First lien term loans	\$ 24,901	\$ 17,117	14.4%
Second lien term loans	57,558	41,043	34.5
Senior secured notes	35,780	25,832	21.7
Unsecured notes	18,782	12,381	10.4
Structured Finance Securities	29,905	22,341	18.8
Equity/limited partnership interest	—	198	0.2
<b>Total</b>	<b>\$ 166,926</b>	<b>\$ 118,912</b>	<b>100.0%</b>

### **Note 4. Investment in GSC Investment Corp. CLO 2007, Ltd.**

On January 22, 2008, we invested \$30 million in all of the outstanding subordinated notes of GSC Investment Corp. CLO 2007, Ltd., (the "GSCIC CLO"), a \$400 million CLO managed by us that invests primarily in senior secured loans. Additionally, we entered into a collateral management agreement with GSCIC CLO pursuant to which we will act as collateral manager to it. In return for our collateral management services, we are entitled to a senior collateral management fee of 0.10% and a subordinate collateral management fee of 0.40% of the outstanding principal amount of GSCIC CLO's assets, to be paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20% of excess cash flow to the extent the GSCIC CLO subordinated notes receive an internal rate of return equal to or greater than 12%. For the three months ended May 31, 2009 and May 31, 2008, we accrued \$0.5 and \$0.5 million in management fees and \$0.9 and \$0.6 million in interest income, respectively. We did not accrue any amounts related to the incentive management fee as the 12% hurdle rate has not yet been achieved.

### **Note 5. Agreements**

On March 21, 2007, the Company entered into an investment advisory and management agreement (the "Management Agreement") with GSC Group. The initial term of the Management Agreement is two years, with automatic, one-year renewals at the end of each year subject to certain approvals by our board of directors and/or our stockholders. Pursuant to the Management Agreement, our investment adviser implements our business strategy on a day-to-day basis and performs certain services for us, subject to oversight by our board of directors. Our investment adviser is responsible for, among other duties, determining investment criteria, sourcing, analyzing and executing investments transactions, asset sales, financings and performing asset management duties. Under the Management Agreement, we have agreed to pay our investment adviser a management fee for investment advisory and management services consisting of a base management fee and an incentive fee.

## Table of Contents

The base management fee of 1.75% is calculated based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed fiscal quarters, and appropriately adjusted for any share issuances or repurchases during the applicable fiscal quarter.

The incentive fee consists of the following two parts:

The first, payable quarterly in arrears, equals 20% of our pre-incentive fee net investment income (not including excise taxes), expressed as a rate of return on the value of the net assets at the end of the immediately preceding quarter, that exceeds a 1.875% quarterly (7.5% annualized) hurdle rate measured as of the end of each fiscal quarter. Under this provision, in any fiscal quarter, our investment adviser receives no incentive fee unless our pre-incentive fee net investment income, as defined above, exceeds the hurdle rate of 1.875%. Amounts received as a return of capital are not included in calculating this portion of the incentive fee. Since the hurdle rate is based on net assets, a return of less than the hurdle rate on total assets may still result in an incentive fee.

The second, payable at the end of each fiscal year equals 20% of our net realized capital gains, if any, computed net of all realized capital losses and unrealized capital depreciation, in each case on a cumulative basis, less the aggregate amount of such incentive fees paid to the investment adviser through such date.

We will defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full fiscal quarter period ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less liabilities) (before taking into account any incentive fees payable during that period) is less than 7.5% of our net assets at the beginning of such period. These calculations will be appropriately pro rated for the first three fiscal quarters of operation and adjusted for any share issuances or repurchases during the applicable period. Such incentive fee will become payable on the next date on which such test has been satisfied for the most recent four full fiscal quarters or upon certain terminations of the investment advisory and management agreement.

For the three months ended May 31, 2009 and May 31, 2008, we incurred \$0.5 and \$0.7 million in base management fees and \$0.3 and \$0.3 million in incentive fees related to pre-incentive fee net investment income, respectively. For the three months ended May 31, 2009 and May 31, 2008, we incurred no incentive management fees related to net realized capital gains. As of May 31, 2009, \$1.1 million of base management fees and \$2.6 million of incentive fees were unpaid and included in management and incentive fees payable in the accompanying consolidated balance sheet.

As of May 31, 2009, the end of the first quarter of fiscal year 2010, the sum of our aggregate distributions to our stockholders and our change in net assets (defined as total assets less liabilities) (before taking into account any incentive fees payable during that period) was less than 7.5% of our net assets at the beginning of the first fiscal quarter of fiscal year 2009. Accordingly, the payment of the incentive fee for the quarter ended May 31, 2009 will be deferred. The total deferred incentive fee payable at May 31, 2009 is \$2.6 million.

On March 21, 2007, the Company entered into a separate administration agreement (the "Administration Agreement") with GSC Group, pursuant to which GSC Group, as our administrator, has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations and provide managerial assistance on our behalf to those portfolio companies to which we are required to provide such assistance. Our allocable portion is based on the proportion that our total assets bears to the total assets or a subset of total assets administered by our administrator.

For the three months ended May 31, 2009 and May 31, 2008, we incurred \$0.2 and \$0.2 million of administrator expenses, respectively, pertaining to bookkeeping, record keeping and other administrative services provided to the Company in addition to our allocable portion of rent and other overhead related expenses. GSC Group has agreed not to be reimbursed by the Company for any expenses incurred in performing its obligations under the Administration Agreement until the Company's total assets exceeds \$500 million. Additionally, the Company's requirement to reimburse GSC Group is capped such that the amounts payable, together with the Company's other operating expenses, will not exceed an amount equal to 1.5% per annum of the Company's net assets attributable to the Company's common stock. Accordingly, for the three months ended May 31, 2009 and May 31, 2008, we have recorded \$0.2 and \$0.3 million in expense waiver and reimbursement, respectively, under the Administration Agreement in the accompanying consolidated statements of operations.

On March 23, 2007, the Manager provided the Company with a Notification of Fee Reimbursement (the "Expense Reimbursement Agreement"). The Expense Reimbursement Agreement provides for the Manager to reimburse the Company for operating expenses to the extent that our total annual operating expenses (other than investment advisory and management fees, interest and credit facility expenses, and organizational expense) exceed an amount equal to 1.55% of our net assets attributable to common stock. The Manager is not entitled to recover any reimbursements under this agreement in future periods. The term of the Expense Reimbursement Agreement is for a period of 12 months beginning March 23, 2007 and for each twelve month period thereafter unless otherwise agreed by the Manager and the Company. On April 15, 2008, the Manager and the Company agreed not to extend the agreement for an additional twelve month period and terminated the Expense Reimbursement Agreement as of March 23, 2008.

## **Note 6. Borrowings**

As a BDC, we are only allowed to employ leverage to the extent that our asset coverage, as defined in the 1940 Act, equals at least 200% after giving effect to such leverage. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

On April 11, 2007, we formed GSC Investment Funding LLC (“GSC Funding”), a wholly owned consolidated subsidiary of the Company, through which we entered into a revolving securitized credit facility (the “Revolving Facility”) with Deutsche Bank AG, as administrative agent, under which we may borrow up to \$100 million. A significant percentage of our total assets have been pledged under the Revolving Facility to secure our obligations thereunder. Under the Revolving Facility, funds are borrowed from or through certain lenders at prevailing commercial paper rates or, if the commercial paper market is at any time unavailable, at prevailing LIBOR rates, plus 0.70% payable monthly. As of May 31, 2009, there was \$57.8 million outstanding under the Revolving Facility and the Company continues to be in compliance with all of the limitations and requirements of the Revolving Facility. As of February 28, 2009, there was \$59.0 million outstanding under the Revolving Facility. For the three months ended May 31, 2009 and May 31, 2008, we recorded \$0.6 and \$0.8 million of interest expense and \$71,320 and \$44,447 of amortization of deferred financing costs related to the Revolving Facility, respectively, and the interest rates during the quarter on the outstanding borrowings ranged from 4.52% to 4.73%.

On May 1, 2007, we formed GSC Investment Funding II LLC (“GSC Funding II”), a wholly owned consolidated subsidiary of the Company, through which we entered into a \$25.7 million term securitized credit facility (the “Term Facility” and, together with the Revolving Facility, the “Facilities”) with Deutsche Bank AG, as administrative agent, which was fully drawn at closing. A significant percentage of our total assets were pledged under the Term Facility to secure our obligations thereunder. The Term Facility bears interest at prevailing commercial paper rates or, if the commercial paper market is at any time unavailable, at prevailing LIBOR rates, plus 0.70%, payable quarterly.

Each of the Facilities contain limitations as to how borrowed funds may be used, such as restrictions on industry concentrations, asset size, payment frequency and status, average life, collateral interests and investment ratings. The Facilities also include certain requirements relating to portfolio performance the violation of which could result in the early amortization of the Facilities, limit further advances (in the case of the Revolving Facility) and, in some cases, result in an event of default, allowing the lenders to accelerate repayment of amounts owed thereunder.

On December 12, 2007, the Company consolidated its Facilities by using the proceeds of a draw under the Revolving Facility to repay and terminate the Term Facility and transferring all assets in GSC Funding II to GSC Funding. The Company’s aggregate indebtedness and cost of funding were unchanged as a result of this consolidation.

In March 2009 we amended the Revolving Credit Facility to increase the portion of the portfolio that can be invested in “CCC” rated investments in return for an increased interest rate and expedited amortization. As a result of these transactions, we expect to have additional cushion under our Borrowing Base (as defined below) that will allow us to better manage our capital in times of declining asset prices and market dislocation. If we are not able to obtain new sources of financing, however, we expect our portfolio will gradually de-lever as principal payments are received, which may negatively impact our net investment income and ability to pay dividends.

At May 31, 2009 and February 28, 2009, we had \$57.8 million and \$59.0 million in borrowings under the Revolving Facility, respectively. The actual amount that may be outstanding at any given time (the “Borrowing Base”) is dependent upon the amount and quality of the collateral securing the Revolving Facility. Our Borrowing Base was \$58.6 million at May 31, 2009 versus \$59.9 million at February 28, 2009. The decline in our Borrowing Base during this period is mainly attributable to the decline in the value of the pledged collateral and the downgrade of certain public ratings or private credit estimates of the pledged collateral.

For purposes of determining the Borrowing Base, most assets are assigned the values set forth in our most recent quarterly report filed with the SEC. Accordingly, the May 31, 2009 Borrowing Base relies upon the valuations set forth in the annual report for the year ended February 28, 2009. The valuations presented in this quarterly report will not be incorporated into the Borrowing Base until after this report is filed with the SEC.

Following the end of the three month period ended May 31, 2009, four portfolio investments were either downgraded or experienced adverse events that resulted in a net decrease of \$18.2 million in our June 30, 2009 Borrowing Base. As a result, we had a Borrowing Base violation of \$17.4 million at June 30, 2009, which exceeds our unrestricted cash and cash equivalents of \$10.3 million at May 31, 2009. We are discussing with our lender a waiver and/or amendment of the Revolving Facility to remedy the Borrowing Base violation. There is no guarantee that we will be able to do so or that any such amendment or waiver will be on terms favorable to the Company. A Borrowing Base deficiency that is not cured within 30 days constitutes an event of default under our Revolving Facility. Among the remedies available to the lenders under our Revolving Facility for an event of default is acceleration of the outstanding indebtedness and liquidation of the pledged assets, which may result in realized losses.

**Note 7. Interest Rate Cap Agreements**

In April and May 2007, pursuant to the requirements of the Facilities, GSC Funding and GSC Funding II entered into interest rate cap agreements with Deutsche Bank AG with notional amounts of \$34.0 million and \$60.9 million at costs of \$75,000, and \$44,000, respectively. In May 2007 GSC Funding increased the notional under its agreement from \$34.0 million to \$40.0 million for an additional cost of \$12,000. The agreements expire in February 2014 and November 2013 respectively. These interest rate caps are treated as free-standing derivatives under FAS 133 and are presented at their fair value on the consolidated balance sheet and changes in their fair value are included on the consolidated statement of operations.

The agreements provide for a payment to the Company in the event LIBOR exceeds 8%, mitigating our exposure to increases in LIBOR. With respect to calculating the payments under these agreements, the notional amount is determined based on a pre-determined schedule set forth in the respective agreements which provides for a reduction in the notional at specified dates until the maturity of the agreements. As of May 31, 2009, we did not receive any such payments as the LIBOR has not exceeded 8%. At May 31, 2009, the total notional outstanding for the interest rate caps was \$66.4 million with an aggregate fair value of \$0.08 million, which is recorded in outstanding interest cap at fair value on the Company's consolidated balance sheet. For the three months ended May 31, 2009, the Company recorded \$0.04 million of unrealized appreciation on derivatives in the consolidated statement of operations related to the change in the fair value of the interest rate cap agreements.

The table below summarizes our interest rate cap agreements as of May 31, 2009 (dollars in thousands):

<b>Instrument</b>	<b>Type</b>	<b>Notional</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>Fair Value</b>
Interest Rate Cap	Free Standing Derivative	\$ 40,000	8.0%	Feb 2014	\$ 52
Interest Rate Cap	Free Standing Derivative	26,433	8.0	Nov 2013	23
	Net fair value				\$ 75

The table below summarizes our interest rate cap agreements as of February 28, 2009 (dollars in thousands):

<b>Instrument</b>	<b>Type</b>	<b>Notional</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>Fair Value</b>
Interest Rate Cap	Free Standing Derivative	\$ 40,000	8.0%	Feb 2014	\$ 28
Interest Rate Cap	Free Standing Derivative	26,433	8.0	Nov 2013	12
	Net fair value				\$ 40

**Note 8. Directors Fees**

The independent directors receive an annual fee of \$40,000. They also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the Audit Committee receives an annual fee of \$5,000 and the chairman of each other committee receives an annual fee of \$2,000 for their additional services in these capacities. In addition, we have purchased directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors' fees in the form of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment. No compensation is paid to directors who are "interested persons." For the three months ended May 31, 2009 we accrued \$0.1 million for directors fees expense. As of May 31, 2009, we had not issued any common stock to our directors as compensation for their services.

**Note 9. Stockholders' Equity**

On May 16, 2006, GSC Group capitalized the LLC, by contributing \$1,000 in exchange for 67 shares, constituting all of the issued and outstanding shares of the LLC.

On March 20, 2007, the Company issued 959,955 and 81,362 shares of common stock, priced at \$15.00 per share, to GSC Group and certain individual employees of GSC Group, respectively, in exchange for the general partnership interest and a limited partnership interest in GSC

## [Table of Contents](#)

Partners CDO III GP, LP, collectively valued at \$15.6 million. At this time, the 67 shares owned by GSC Group in the LLC were exchanged for 67 shares of GSC Investment Corp.

On March 28, 2007, the Company completed its IPO of 7,250,000 shares of common stock, priced at \$15.00 per share, before underwriting discounts and commissions. Total proceeds received from the IPO, net of \$7.1 million in underwriter's discount and commissions, and \$1.0 million in offering costs, were \$100.7 million.

### Note 10. Earnings Per Share

The following information sets forth the computation of the weighted average basic and diluted net decrease in net assets per share from operations for the three months ended May 31, 2009, and May 31, 2008 (dollars in thousands except share and per share amounts):

Basic and diluted	May 31, 2009	May 31, 2008
Net increase in net assets from operations	\$ 5,364	\$ 2,811
Weighted average common shares outstanding	8,291,384	8,291,384
Earnings per common share-basic and diluted	\$ 0.65	\$ 0.34

### Note 11. Dividend

The following table summarizes dividends declared during the three months ended May 31, 2009 and May 31, 2008 (dollars in thousands except per share amounts):

Date Declared	Record Date	Payment Date	Amount Per Share *	Total Amount
n/a	n/a	n/a	\$—	\$—
Total dividends declared				\$—
Date Declared	Record Date	Payment Date	Amount Per Share *	Total Amount
May 22, 2008	May 30, 2008	June 13, 2008	\$ 0.39	\$ 3,234
Total dividends declared				\$ 0.39

\* Amount per share is calculated based on the number of shares outstanding at the date of declaration.

### Note 12. Financial Highlights

The following is a schedule of financial highlights for the three months ended May 31, 2009 and May 31, 2008:

	May 31, 2009	May 31, 2008
Per share data:		
Net asset value at beginning of period	\$ 8.20	\$ 11.80
Net investment income (1)	0.31	0.39
Net realized losses on investments and derivatives	—	(0.04)
Net unrealized appreciation (depreciation) on investments and derivatives	0.34	(0.01)
Net increase in stockholders' equity	0.65	0.34
Distributions declared from net investment income	—	(0.39)
Total distributions to stockholders	—	(0.39)
Net asset value at end of period	\$ 8.85	\$ 11.75
Net assets at end of period	\$73,377,593	\$97,446,648
Shares outstanding at end of period	8,291,384	8,291,384

## Table of Contents

	<u>May 31, 2009</u>	<u>May 31, 2008</u>
Per share market value at end of period	\$ 2.90	\$10.43
Total return based on market value (2)	45.73%	(1.99)%
Total return based on net asset value (3)	7.93%	2.88%

### **Ratio/Supplemental data:**

Ratio of net investment income to average net assets (4)	11.97%	11.77%
Ratio of operating expenses to average net assets (4)	7.04%	6.68%
Ratio of incentive management fees to average net assets	1.61%	1.38%
Ratio of credit facility related expenses to average net assets	3.22%	3.38%
Ratio of total expenses to average net assets (4)	11.87%	11.45%

- (1) Net investment income excluding expense waiver and reimbursement equals \$0.29 and \$0.35 per share for the three months ended May 31, 2009 and May 31, 2008, respectively.
- (2) For the three months ended May 31, 2009, the total return based on market value equals the market value at May 31, 2009, of \$2.90 per share less the price per share at February 28, 2009, of \$1.99, divided by the February 28, 2009 price per share. For the three months ended May 31, 2008, the total return based on market value equals the decrease in market value at May 31, 2008, of \$0.61 per share over the price per share at February 29, 2008, of \$11.04, plus the declared dividend of \$0.39 per share for stockholders of record on May 30, 2008, divided by the February 29, 2008 price per share. Total return based on market value is not annualized.
- (3) For the three months ended May 31, 2009, the total return based on net asset value equals the change in net asset value during the period, divided by the beginning net asset value during the period. For the three months ended May 31, 2008, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$0.39 per share for stockholders of record on May 30, 2008, divided by the beginning net asset value during the period. Total return based on net asset value is not annualized.
- (4) For the three months ended May 31, 2009, incorporating the expense waiver and reimbursement arrangement, the ratio of net investment income, operating expenses, total expenses to average net assets is 12.83%, 6.18%, and 11.01%, respectively. For the three months ended May 31, 2008, incorporating the expense reimbursement arrangement, the ratio of net investment income, operating expenses, total expenses to average net assets is 12.98%, 5.47%, and 10.24%, respectively.

### **Note 13. Related Party Transaction**

On March 20, 2007, the Company issued 959,955 and 81,362 shares of common stock, priced at \$15.00 per share, to GSC Group and certain individual employees of GSC Group, respectively, in exchange for the general partnership interest and a limited partnership interest in GSC Partners CDO III GP, LP, collectively valued at \$15.6 million. Additionally, GSC Group assigned its rights to act as collateral manager for GSC Partners CDO Fund III, Limited ("CDO III") to the Company. The Company paid GSC Group \$0.1 million to acquire the rights to act as collateral manager and expected to receive collateral management fees of \$0.2 million. As of May 31, 2009, the fair value of the general partnership interest and limited partnership interest is \$32,308.

On January 10, 2008, GSC Group notified our Dividend Reinvestment Plan Administrator that it was electing to receive dividends and other distributions in cash (rather than in additional shares of common stock) with respect to all shares of stock held by it and the investment funds under its control. For the year ended February 28, 2009, GSC Group received 35,911 of additional shares under the dividend reinvestment plan. As of May 31, 2009, GSC Group and its affiliates own approximately 12% of the outstanding common shares of the Company.

On January 22, 2008, we entered into a collateral management agreement with GSCIC CLO pursuant to which we will act as collateral manager to it. In return for our collateral management services, we are entitled to a senior collateral management fee of 0.10% and a subordinate collateral management fee of 0.40% of the outstanding principal amount of GSCIC CLO's assets, to be paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20% of excess cash flow to the extent the GSCIC CLO subordinated notes receive an internal rate of return equal to or greater than 12%. We do not expect to enter into additional collateral management agreements in the near future.

In April 2009, our investment adviser withheld a scheduled principal amortization payment under its credit facility, resulting in a default thereunder. Since then, our investment adviser has been in discussions with its secured lenders regarding a consensual restructuring of its obligations under such credit facility. While we are not directly affected by our investment adviser's default, a material adverse change in the business, condition (financial or otherwise), operations or performance of our investment adviser could constitute a default under our Revolving Facility.



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

The following discussion should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this quarterly report. In addition to historical information, the following discussion and other parts of this quarterly report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed in Item 1A in our Annual Report on Form 10-K for the fiscal year ended February 28, 2009 and Part II, Item 1A in this quarterly report.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements.

The forward-looking statements contained in this quarterly report include statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of our investment adviser to locate suitable investments for us and to monitor and effectively administer our investments; and
- continued access to our Revolving Facility.

You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this quarterly report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this quarterly report.

**OVERVIEW**

GSC Investment Corp. is a Maryland corporation that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). Our investment objectives are to generate current income and capital appreciation through debt and equity investments by primarily investing in middle market companies and select high yield bonds. We have elected to be treated as a regulated investment company (“RIC”) under subchapter M of the Internal Revenue Code. We commenced operations on March 23, 2007, and completed our initial public offering (“IPO”) on March 28, 2007. We are externally managed and advised by our investment adviser, GSCP (NJ), L.P. (together with certain of its affiliates, “GSC Group”).

We used the net proceeds of our IPO to purchase approximately \$100.7 million in aggregate principal amount of debt investments from GSC Partners CDO Fund III, Limited (“CDO Fund III”), a collateralized loan obligation (“CLO”) fund managed by our

## Table of Contents

investment adviser. We used borrowings under our credit facilities to purchase approximately \$115.1 million in aggregate principal amount of debt investments in April and May 2007 from CDO Fund III and GSC Partners CDO Fund Limited (“CDO Fund I”), a collateralized debt obligation fund managed by our investment adviser. As of May 31, 2009, our portfolio consisted of \$121.2 million of investments in 35 portfolio companies and one CLO.

Our portfolio is comprised primarily of investments in leveraged loans (comprised of both first and second lien term loans) issued by middle market companies and high yield bonds. We seek to create a diversified portfolio by investing up to 5% of our total assets in each investment, although the investment sizes may be more or less than the targeted range. These investments are sourced in both the primary and secondary markets through a network of relationships with commercial and investment banks, commercial finance companies and financial sponsors. The leveraged loans and high yield bonds that we purchase are generally used to finance buyouts, acquisitions, growth, recapitalizations and other types of transactions. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. High yield bonds are typically subordinated to leveraged loans and generally unsecured, though a substantial amount of the high yield bonds that we currently own are secured. Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by Moody’s Investors Service (“Moody’s”) and/or Standard & Poor’s or, if not rated, would be rated below investment grade if rated. High yield bonds rated below investment grade are commonly referred to as “junk bonds.” As part of our long term strategy, we also anticipate purchasing mezzanine debt and making equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. For purposes of this quarterly report, we generally use the term “middle market” to refer to companies with annual EBITDA of between \$5 million and \$50 million. EBITDA represents earnings before net interest expense, income taxes, depreciation and amortization. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations.

While our primary focus is to generate current income and capital appreciation through investments in debt and equity securities of middle market companies and high yield bonds, we intend to invest up to 30% of our total assets in opportunistic investments. Opportunistic investments may include investments in distressed debt, debt and equity securities of public companies, credit default swaps, emerging market debt, and structured finance vehicles, including CLOs. As part of this 30%, we may also invest in debt of middle market companies located outside the United States. Given our primary investment focus on first and second lien term loans issued by middle market companies and high yield bonds, we believe our opportunistic investments will allow us to supplement our core investments with other investments that are within our investment adviser’s expertise that we believe offer attractive yields and/or the potential for capital appreciation. As of May 31, 2009, our investment in the subordinated notes of GSC Investment Corp. CLO 2007, Ltd. (“GSCIC CLO”), a CLO we manage, constituted 14.1% of our total assets. We do not expect to manage and purchase all of the equity in another CLO transaction in the near future. We may, however, invest in CLO securities issued by other investment managers.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we have to invest at least 70% of our total assets in “qualifying assets,” including securities of U.S. operating companies whose securities are not listed on a national securities exchange (i.e., New York Stock Exchange, American Stock Exchange and The NASDAQ Global Market), U.S. operating companies with listed securities that have market capitalizations of less than \$250 million, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, we are only allowed to borrow money such that our asset coverage, which, as defined in the 1940 Act, measures the ratio of total assets less total liabilities (excluding borrowings) to total borrowings, equals at least 200% after such borrowing, with certain limited exceptions.

Over the past year, due to unfavorable conditions in the credit market and constraints imposed by our Revolving Facility (as defined below), we have had limited investment activity in both the primary and secondary markets. In May 2009, the Company announced that it retained the investment banking firm of Stifel, Nicolaus & Company to help identify and evaluate strategic and financing opportunities and consider alternatives. There is no assurance that the exploration and evaluation of strategic and financing alternatives will result in any transaction.

### **Revenues**

We generate revenue in the form of interest income and capital gains on the debt investments that we hold and capital gains, if any, on equity interests that we may acquire. We expect our debt investments, whether in the form of first and second lien term loans, mezzanine debt or high yield bonds, to have terms of up to ten years, and to bear interest at either a fixed or floating rate. Interest on debt will be payable generally either quarterly or semi-annually. In some cases our debt investments may provide for a portion of the interest to be paid-in-kind (“PIK”). To the extent interest is paid-in-kind, it will be payable through the increase of the principal

## Table of Contents

amount of the obligation by the amount of interest due on the then-outstanding aggregate principal amount of such obligation. The principal amount of the debt and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance or investment management services and possibly consulting fees. Any such fees will be generated in connection with our investments and recognized as earned. We may also invest in preferred equity securities that pay dividends on a current basis.

Pursuant to an agreement with our investment adviser entered into on October 17, 2006, prior to becoming a BDC, we acquired the right to act as investment adviser to CDO Fund III and collect the management fees related thereto from March 20, 2007 until the liquidation of the CDO Fund III assets. We paid our investment adviser a fair market price of \$0.1 million for the right to act as investment advisor to CDO Fund III.

On January 22, 2008, we entered into a collateral management agreement with GSCIC CLO pursuant to which we act as its collateral manager and receive a senior collateral management fee of 0.10% and a subordinate collateral management fee of 0.40% of the outstanding principal amount of GSCIC CLO's assets, paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20% of excess cash flow to the extent the GSCIC CLO subordinated notes receive an internal rate of return equal to or greater than 12%.

We recognize interest income on our investment in the subordinated notes of GSCIC CLO using the effective interest method, based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the investment from the date the estimated yield was changed.

### **Expenses**

Our primary operating expenses include the payment of investment advisory and management fees, professional fees, directors and officers insurance, fees paid to independent directors and administrator expenses, including our allocable portion of our administrator's overhead. Our allocable portion is based on the ratio of our total assets to the total assets administered by our administrator. Our investment advisory and management fees compensate our investment adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions, including those relating to:

- organization;
- calculating our net asset value (including the costs and expenses of any independent valuation firm);
- expenses incurred by our investment adviser payable to third parties, including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;
- interest payable on debt, if any, incurred to finance our investments;
- offerings of our common stock and other securities;
- investment advisory and management fees;
- administration fees;
- fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments;
- transfer agent and custodial fees;
- registration and listing fees;
- taxes;

## Table of Contents

- independent directors' fees and expenses;
- costs of preparing and filing reports or other documents with the SEC;
- the costs of any reports;
- proxy statements or other notices to stockholders, including printing costs;
- to the extent we are covered by any joint insurance policies, our allocable portion of the insurance premiums for such joint policies;
- direct costs and expenses of administration, including auditor and legal costs; and
- all other expenses incurred by us or our administrator in connection with administering our business.

The amount payable to GSC Group as administrator under the administration agreement is capped to the effect that such amount, together with our other operating expenses, does not exceed an amount equal to 1.5% per annum of our net assets attributable to common stock. In addition, for the current one-year term of the administration agreement (expiring March 21, 2010), GSC Group has waived our reimbursement obligation under the administration agreement until our total assets exceed \$500 million.

Pursuant to the investment advisory and management agreement, we pay GSC Group as investment adviser a quarterly base management fee of 1.75% of the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed fiscal quarters, and appropriately adjusted for any share issuances or repurchases during the applicable fiscal quarter, and an incentive fee.

The incentive fee has two parts:

- A fee, payable quarterly in arrears, equal to 20% of our pre-incentive fee net investment income, expressed as a rate of return on the value of the net assets at the end of the immediately preceding quarter, that exceeds a 1.875% quarterly (7.5% annualized) hurdle rate measured as of the end of each fiscal quarter. Under this provision, in any fiscal quarter, our investment adviser receives no incentive fee unless our pre-incentive fee net investment income exceeds the hurdle rate of 1.875%. Amounts received as a return of capital are not included in calculating this portion of the incentive fee. Since the hurdle rate is based on net assets, a return of less than the hurdle rate on total assets may still result in an incentive fee.
- A fee, payable at the end of each fiscal year, equal to 20% of our net realized capital gains, if any, computed net of all realized capital losses and unrealized capital depreciation, in each case on a cumulative basis, less the aggregate amount of capital gains incentive fees paid to the investment adviser through such date.

We will defer cash payment of any incentive fee otherwise earned by our investment adviser if, during the most recent four full fiscal quarterly periods ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less liabilities) (before taking into account any incentive fees payable during that period) is less than 7.5% of our net assets at the beginning of such period. These calculations will be appropriately pro rated for the first three fiscal quarters of operation and adjusted for any share issuances or repurchases during the applicable period. Such incentive fee will become payable on the next date on which such test has been satisfied for the most recent four full fiscal quarters or upon certain terminations of the investment advisory and management agreement. We commenced deferring cash payment of incentive fees during the quarterly period ending August 31, 2007, and have continued to defer such payments through the current quarterly period; we have recorded a payable in respect of such deferred fees in the amount of \$2.6 million as of May 31, 2009.

To the extent that any of our leveraged loans are denominated in a currency other than U.S. dollars, we may enter into currency hedging contracts to reduce our exposure to fluctuations in currency exchange rates. We may also enter into interest rate hedging agreements. Such hedging activities, which will be subject to compliance with applicable legal requirements, may include the use of interest rate caps, futures, options and forward contracts. Costs incurred in entering into or settling such contracts will be borne by us.

## [Table of Contents](#)

From the commencement of operations until March 23, 2008, GSC Group reimbursed us for operating expenses to the extent that our total annual operating expenses (other than investment advisory and management fees and interest and credit facility expenses) exceeded an amount equal to 1.55% of our net assets attributable to common stock.

### PORTFOLIO AND INVESTMENT ACTIVITY

#### *Corporate Debt Portfolio Overview<sup>(1)</sup>*

	<u>At May 31, 2009</u>	<u>At February 28, 2009</u>
	(\$ in millions)	
Number of investments	42	42
Number of portfolio companies	35	35
Average investment size	\$ 2.4	\$ 2.3
Weighted average maturity	3.1years	3.3years
Number of industries	22	22
Average investment per portfolio company	\$ 2.9	\$ 2.8
Non-Performing or delinquent investments	\$ 3.1	\$ 0.4
Fixed rate debt (% of interest bearing portfolio)	\$43.4 (42.6%)	\$40.3 (41.8%)
Weighted average current coupon	11.7%	11.7%
Floating rate debt (% of interest bearing portfolio)	\$58.6 (57.4%)	\$56.2 (58.2%)
Weighted average current spread over LIBOR	6.4%	5.9%

(1) Excludes our investment in the subordinated notes of GSCIC CLO and GSC Partners CDO GP III, L.P.

During the three months ended May 31, 2009, we made no investments in new or existing portfolio companies and had \$0.3 million in aggregate amount of exits and repayments, resulting in net repayments of \$0.3 million for the period.

During the three months ended May 31, 2008, we made 9 investments in an aggregate amount of \$13.8 million in new portfolio companies and 2 investments in an aggregate amount of \$2.4 million in existing portfolio companies. Also during the three months ended May 31, 2008, we had \$32.9 million in aggregate amount of exits and repayments, resulting in net repayments of \$16.7 million for the period.

Our portfolio composition at May 31, 2009 and February 28, 2009 was as follows:

#### *Portfolio composition*

	<u>At May 31, 2009</u>		<u>At February 28, 2009</u>	
	<u>Percentage of Total Portfolio</u>	<u>Weighted Average Current Yield</u>	<u>Percentage of Total Portfolio</u>	<u>Weighted Average Current Yield</u>
First lien term loans	16.3%	7.7%	14.4%	6.8%
Second lien term loans	33.7	9.3	34.5	9.0
Senior secured notes	23.6	11.6	21.7	11.6
Unsecured notes	10.5	12.3	10.4	12.3
GSCIC CLO subordinated notes	15.8	11.2	18.8	12.2
Equity/limited partnership interests	0.1	N/A	0.2	N/A
Total	<u>100.0%</u>	<u>10.3%</u>	<u>100.0%</u>	<u>10.2%</u>

Our investment in the subordinated notes of GSCIC CLO represents a first loss position in a portfolio that, at May 31, 2009, was composed of \$413.3 million in aggregate principal amount of predominantly senior secured first lien term loans. This investment is subject to unique risks. (See Part I, Item 1A "Risk Factors—Risks related to our investments—Our investment in GSCIC CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility" of our Annual Report on Form 10-K for the fiscal year ended February 28, 2009) and we do not consolidate the GSCIC CLO portfolio on our financial statements. Accordingly, the metrics below do not include the underlying GSCIC CLO portfolio investments. However, at May 31, 2009, 92.3% of the GSCIC CLO portfolio investments were performing and over 75.9% of the GSCIC CLO portfolio investments had a CMR (as defined below) numerical debt score of less than 2.99 and a corporate letter rating of A or B.



[Table of Contents](#)

The following table shows the portfolio composition by industry grouping at fair value at May 31, 2009 and February 28, 2009.

**Portfolio composition by industry grouping at fair value**

	At May 31, 2009		At February 28, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Structured Finance Securities(1)	\$ 19,208	15.8%	\$ 22,341	18.8%
Manufacturing	14,478	11.9	14,480	12.2
Packaging	10,980	9.1	10,070	8.5
Publishing	8,114	6.7	6,477	5.4
Oil and Gas	7,984	6.6	7,359	6.2
Consumer Products	7,537	6.2	7,843	6.6
Electronics	7,031	5.8	6,849	5.8
Apparel	6,834	5.6	6,616	5.5
Healthcare Services	6,720	5.5	6,010	5.0
Metals	6,278	5.2	5,693	4.8
Environmental	4,328	3.6	3,592	3.0
Homebuilding	3,841	3.2	3,490	2.9
Financial Services	3,090	2.6	3,162	2.7
Natural Resources	3,061	2.5	4,470	3.8
Logistics	2,384	2.0	2,134	1.8
Insurance	1,800	1.5	1,493	1.3
Food and Beverage	1,755	1.4	1,707	1.4
Printing	1,748	1.4	1,638	1.4
Building Products	1,704	1.4	1,426	1.2
Chemicals	816	0.7	371	0.3
Software	810	0.7	773	0.6
Education	470	0.4	674	0.6
Consumer Services	252	0.2	244	0.2
Total	\$ 121,223	100.0%	\$ 118,912	100.0%

(1) Comprised of our investment in the subordinated notes of GSCIC CLO.

The following table shows the portfolio composition by geographic location at fair value at May 31, 2009 and February 28, 2009. The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

**Portfolio composition by geographic location at fair value**

	At May 31, 2009		At February 28, 2009	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Midwest	\$ 32,972	27.2%	\$ 31,716	26.7%
Southeast	25,236	20.8	23,094	19.4
Other(1)	19,240	15.9	22,449	18.9
West	16,951	14.0	16,137	13.6
Northeast	14,385	11.8	12,578	10.6
International	11,629	9.6	12,165	10.2
Mid-Atlantic	810	0.7	773	0.6
Total	\$ 121,223	100.0%	\$ 118,912	100.0%

(1) Predominantly comprised of our investment in the subordinated notes of GSCIC CLO.

**RESULTS OF OPERATIONS*****Investment Income***

Total investment income was \$4.8 million for the three months ended May 31, 2009 versus \$5.7 million for the three months ended May 31, 2008, a decrease of \$0.9 million, or 16.6%. The composition of our investment income in each period was as follows:

***Investment Income***

	Three months ended	
	<u>May 31, 2009</u>	<u>May 31, 2008</u>
	(\$ in thousands)	
Interest from investments	\$ 4,187	\$ 5,094
Management of GSCIC CLO	521	523
Interest from cash and cash equivalents and other income	56	98
Total	<u>\$ 4,764</u>	<u>\$ 5,715</u>

The decrease is predominantly attributable to the decrease in investment income earned during the three months ended May 31, 2009 versus the three months ended May 31, 2008. This decrease is mainly attributable to a decrease in the LIBOR rate earned on the floating rate investments, a small decrease in the total portfolio size, and an increase in the allowance for impaired loans and bonds.

For the three months ended May 31, 2009, total PIK income was \$0.2 million. For the three months ended May 31, 2008, total PIK income was \$0.3 million.

***Operating Expenses***

Total operating expenses before manager expense waiver and reimbursement were \$2.4 million for the three months ended May 31, 2009 versus \$2.8 million for the three months ended May 31, 2008, a decrease of \$0.4 million, or 15.8%. The composition of our operating expenses in each period was as follows:

***Operating Expenses***

	Three months ended	
	<u>May 31, 2009</u>	<u>May 31, 2008</u>
	(\$ in thousands)	
Interest and credit facility expense	\$ 643	\$ 833
Base management fees	548	749
Professional fees	340	345
Incentive management fees	322	340
Insurance expenses	206	168
Administrator expenses	172	248
Directors fees and expenses	82	67
General and administrative expenses	59	65
Other	—	3
Total	<u>\$ 2,372</u>	<u>\$ 2,818</u>

The decrease in operating expenses between the two periods was primarily attributable to the decrease in interest and credit facility expense due to decreased borrowing under the Revolving Facility (please see “—Financial Condition, Liquidity and Capital Resources” below for more information) and the decrease in base management fees resulting from the decrease in the average value of our total net assets. Beginning in March 2009, the interest margin on our credit facility increased from 0.70% to 4.00%. The effect of this increase during the three months ended May 31, 2009 was mitigated by a decrease in the commercial paper rate from the three months ended May 31, 2008. Please see “—Financial Condition, Liquidity and Capital Resources” below for more information.

For the three months ended May 31, 2009, we recorded \$0.2 million in expense waiver and reimbursement from the administrator and Manager versus \$0.3 million for the three months ended May 31, 2008. The decline was due to the termination of the expense reimbursement agreement as of March 23, 2008, pursuant to which GSC Group had reimbursed the Company for operating expenses (other than investment advisory and management fees and interest and credit facility expenses) in excess of 1.55% of net assets, attributable to common stock.



[Table of Contents](#)

**Net Realized Gains/Losses from Investments**

For the three months ended May 31, 2009, the Company had \$5,152 of net realized losses versus \$0.3 million of net realized losses for the three months ended May 31, 2008. The most significant gains and losses for each period were the following:

**Three months ended May 31, 2009**

<u>Issuer</u>	<u>Asset Type</u>	<u>Gross Proceeds</u>	<u>Cost</u>	<u>Net Realized Gain/(Loss)</u>
		(\$ in thousands)		
IPC Systems, Inc.	First Lien Term Loan	\$14	\$19	\$(5)

**Three months ended May 31, 2008**

<u>Issuer</u>	<u>Asset Type</u>	<u>Gross Proceeds</u>	<u>Cost</u>	<u>Net Realized Gain/(Loss)</u>
		(\$ in thousands)		
SILLC Holdings	Second Lien Term Loan	\$23,049	\$22,878	\$ 171
Claire's Stores, Inc.	First Lien Term Loan	2,105	2,585	(480)
Jason Incorporated	Unsecured Notes	1,581	1,700	(119)

**Net Unrealized Appreciation/Depreciation on Investments**

For the three months ended May 31, 2009, the Company's investments had net unrealized appreciation of \$2.8 million versus net unrealized depreciation of \$0.1 million for the three months ended May 31, 2008. The most significant unrealized appreciation and depreciation for each period were the following:

**Three months ended May 31, 2009**

<u>Issuer</u>	<u>Asset Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Total Unrealized Depreciation</u>	<u>YTD Change in Unrealized Appreciation/(Depreciation)</u>
		(\$ in thousands)			
Terphane Holdings Corp.	Senior Secured Notes	\$10,435	\$ 8,568	\$ (1,867)	\$ 870
Penton Media, Inc.	First Lien Term Loan	3,770	2,915	(855)	861
IDI Acquisition Corp.	Senior Secured Notes	3,638	3,207	(431)	764
USS Mergerco, Inc.	Second Lien Term Loan	5,852	4,328	(1,524)	731
Elyria Foundry Co.	Senior Secured Notes	4,858	4,444	(414)	686
GSCIC CLO	Other/Structured Finance Securities	29,233	19,208	(10,025)	(2,461)
Grant U.S. Holdings LLP	Second Lien Term Loan	6,189	795	(5,394)	(1,643)
Targus Group Intl.	Second Lien Term Loan	4,786	2,573	(2,213)	(563)

**Three months ended May 31, 2008**

<u>Issuer</u>	<u>Asset Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Total Unrealized Depreciation</u>	<u>YTD Change in Unrealized Appreciation/(Depreciation)</u>
		(\$ in thousands)			
SILLC Holdings	Second Lien Term Loan	\$ —	\$ —	\$ —	\$ 2,582
EuroFresh Inc.	Unsecured Notes	6,895	4,585	(2,310)	731
Claire's Stores, Inc.	First Lien Term Loan	—	—	—	401
McMillin Companies	Senior Secured Notes	7,220	6,199	(1,021)	261
Terphane Holdings Corp.	Senior Secured Notes	10,447	7,410	(3,037)	(2,162)
M/C Communications	First Lien Term Loan	1,565	944	(621)	(595)
Network Communications	Unsecured Notes	5,094	3,825	(1,269)	(574)

The \$2.5 million net unrealized depreciation in our investment in the GSCIC subordinated notes was due to ratings downgrades in the portfolio during the three months ended May 31, 2009, which causes distributions to the equity to be deferred until later in the life of the investment. The reasons for changes in the fair value of other portfolio investments must be considered on a case-by-case basis. However, two factors that we believe have had a significant impact on our portfolio overall are the market wide decrease in interest

## [Table of Contents](#)

yield as a result of risk re-pricing and the cessation of forced liquidations of loan portfolios. For example, the average yield on the Credit Suisse High Yield Index decreased from 17.85% to 13.10% from February 28, 2009 to May 31, 2009 and the average bid price on the S&P Flow Name Index increased from 72.72% to 83.28% from February 26, 2009 to May 28, 2009. While we continue to believe that positive and negative market-wide movements are not necessarily indicative of any changes in the condition or prospects of our portfolio investments, our valuation process requires us to take account of such conditions in determining the fair value of our portfolio.

### ***Net Unrealized Appreciation/Depreciation on Derivatives***

For the three months ended May 31, 2009, changes in the value of the interest rate caps purchased pursuant to the credit facilities resulted in an unrealized appreciation of \$35,687 versus an unrealized depreciation of \$11,998 for the three months ended May 31, 2008.

### ***Changes in Net Asset Value from Operations***

For the three months ended May 31, 2009, we recorded a net increase in net assets resulting from operations of \$5.4 million versus a net increase in net assets resulting from operations of \$2.8 million for the three months ended May 31, 2008. The difference is attributable to the increase in net unrealized appreciation, the decline in operating expenses, and the decrease in net unrealized losses between the two periods, which outweighed the decline in net investment income between the two periods. Based on 8,291,384 weighted average common shares outstanding as of May 31, 2009 and May 31, 2008, our per share net increase in net assets resulting from operations was \$0.65 for the three months ended May 31, 2009 versus a per share net increase of \$0.34 for the three months ended May 31, 2008.

## **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity and capital resources have been generated primarily from the net proceeds of its IPO, advances from the Revolving Facility, as well as cash flows from operations. On March 28, 2007, we completed our IPO and issued 7,250,000 common shares and received net proceeds of \$100.7 million.

On April 11, 2007, we entered into a revolving securitized credit facility (the "Revolving Facility"). In response to the market wide decline in financial asset prices, which has negatively affect the value of our portfolio, we terminated the revolving period of the Revolving Facility effective January 14, 2009 and commenced a two-year amortization period during which all principal proceeds from the collateral will be used to repay outstanding borrowings. At the end of the two year amortization period, all advances will be due and payable. In March 2009, we amended the Revolving Credit Facility to decrease the minimum required collateralization and increase the portion of the portfolio that can be invested in "CCC" rated investments in return for an increased interest rate and expedited amortization. As a result of these transactions, we increased our Borrowing Base (as defined below). If we are not able to obtain new sources of financing, however, we expect our portfolio will gradually de-lever as principal payments are received, which may negatively impact our net investment income and ability to pay dividends. Please see Part I, Item 1A "Risk Factors—Risks Related to Our Business—We need to find alternative sources of leverage and/or access the equity markets to maintain and grow our business" in our Annual Report on Form 10-K for the fiscal year ended February 28, 2009 for more information.

At May 31, 2009, we had \$57.8 million in borrowings under the Revolving Facility versus \$59.0 million in borrowings at February 28, 2009. Interest is payable on funds drawn under the Revolving Facility at the prevailing commercial paper rates or, if the commercial paper market is at any time unavailable, the prevailing LIBOR rates, plus, until March 2009, 0.70%, from March 2009 to March 2010, 4.00% and from March 2010 until maturity, 5.00%, payable monthly (6.00% if the commercial paper market is unavailable).

A significant percentage of our total investments have been pledged to secure our obligations under the Revolving Facility.

The actual amount that may be outstanding on the Revolving Facility at any given time (the "Borrowing Base") is dependent upon the amount and quality of the collateral securing the Revolving Facility. Our Borrowing Base was \$58.6 million at May 31, 2009 versus \$59.9 million at February 28, 2009. The decline in our Borrowing Base during this period is mainly attributable to the decline in the value of the pledged collateral and the downgrade of certain public ratings or private credit estimates of the pledged collateral.

A Borrowing Base violation will occur if our outstanding borrowings exceed the Borrowing Base at any time. We can cure a Borrowing Base violation by reducing our borrowing below the Borrowing Base (by, e.g., selling collateral and repaying borrowings)

## [Table of Contents](#)

or pledging additional collateral to increase the Borrowing Base. If we fail to cure a Borrowing Base violation within 30 days, an event of default under the Revolving Facility will occur. Among the remedies available to our lenders after an event of default is acceleration and liquidation of the pledged portfolio, which may substantially impair the returns to our investors. Please see Part II, Item 1A. "Risk Factors- An event of default under the Revolving Facility may lead to a forced liquidation of the pledged assets that may yield less than the fair value of the assets" in this quarterly report for more information.

Following the end of the three month period ended May 31, 2009, several portfolio investments were either downgraded or experienced adverse events that resulted in a net decrease of \$18.2 million in our June 30 Borrowing Base. As a result, we had a Borrowing Base violation of \$17.4 million at June 30, 2009, which exceeds our unrestricted cash and cash equivalents of \$10.3 million at May 31, 2009. We are discussing with our lender a waiver of the Borrowing Base violation. There is no guarantee that we will be able to do so or that any such amendment or waiver will be on terms favorable to the Company.

Due to adverse portfolio events in GSCIC CLO, on the quarterly payment date occurring in July, some or all of the subordinated management fee will be deferred and funds that would otherwise have been used to pay the subordinated management fee and /or distributed to equity investors will instead be used to repay outstanding indebtedness. Neither the portfolio events nor the repayment of outstanding indebtedness constitute a default on the GSCIC CLO debt. Subordinated management fees will continue to accrue and will be payable in full (subject to available funds) when the adverse portfolio conditions are cured. Changes in the value of, or distributions on, the GSCIC CLO do not affect the Borrowing Base.

In April 2009, our investment adviser withheld a scheduled principal amortization payment under its credit facility, resulting in a default thereunder. Since then, our investment adviser has been in discussions with its secured lenders regarding a consensual restructuring of its obligations under such credit facility. While we are not directly affected by our investment adviser's default, a material adverse change in the business, condition (financial or otherwise), operations or performance of our investment adviser could constitute a default under our Revolving Facility.

Our asset coverage ratio, as defined in the 1940 Act, was 227% at May 31, 2009 versus 215% at February 28, 2009.

At May 31, 2009 and February 28, 2009, the fair value of investments, cash and cash equivalents and cash and cash equivalents, securitization accounts were as follows:

	At May 31, 2009		At February 28, 2009	
	Fair Value	Percent of Total	Fair Value	Percent of Total
	(\$ in thousands)			
Cash and cash equivalents	\$ 8,544	6.5%	\$ 6,356	5.0%
Cash and cash equivalents, securitization accounts	2,029	1.5	1,178	0.9
First lien term loans	19,765	15.0	17,118	13.5
Second lien term loans	40,815	31.0	41,043	32.5
Senior secured notes	28,638	21.7	25,832	20.4
Unsecured notes	12,676	9.6	12,381	9.8
Other/structured finance securities	19,208	14.6	22,341	17.7
Equity/limited partnership interests	121	0.1	198	0.2
Total	\$ 131,796	100.0%	\$ 126,447	100.0%

In order to better manage the Company's capital in light of continuing volatility in the credit markets, the Board determined that, beginning with the fourth quarter of fiscal year 2009, it would determine the amount and timing of dividends, if any, upon review of the financial results of the quarter. Accordingly, the Board determined not to pay a dividend in respect of the fourth quarter of fiscal year 2009 at its regularly scheduled May 2009 meeting. The Board will consider payment of a dividend in connection with the first quarter of fiscal year 2010 at its regularly scheduled July meeting. The timing and amount of dividends remains within the Board's discretion. Subject to certain conditions, for taxable years ending on or before December 31, 2009, we are permitted to make distributions to our stockholders in the form of shares of our common stock in lieu of cash distributions. The decision to make such distributions will be made by our Board of Directors.

**OFF-BALANCE SHEET ARRANGEMENTS**

At May 31, 2009 and February 28, 2009, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our business activities contain elements of market risk. We consider our principal market risks to be fluctuations in interest rates and the inherent difficulty of determining the fair value of our investments that do not have a readily available market value. Managing these risks is essential to our business. Accordingly, we have systems and procedures designed to identify and analyze our risks, to establish appropriate policies and thresholds and to continually monitor these risks and thresholds by means of administrative and information technology systems and other policies and processes.

***Interest Rate Risk***

Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, including relative changes in different interest rates, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest bearing debt and liabilities. Changes in interest rates can also affect, among other things, our ability to acquire leveraged loans, high yield bonds and other debt investments and the value of our investment portfolio.

Our investment income is affected by fluctuations in various interest rates, including LIBOR and the prime rate. A large portion of our portfolio is, and we expect will continue to be, comprised of floating rate investments that utilize LIBOR. Our interest expense is affected by fluctuations in the commercial paper rate or, if the commercial paper market is unavailable, LIBOR. At May 31, 2009, we had \$57.8 million of borrowings outstanding at a floating rate tied to the prevailing commercial paper rate plus a margin of 4.00% (6.00% if the commercial paper market is unavailable).

In April and May 2007, pursuant to the Revolving Facility, the Company entered into two interest rate cap agreements with notional amounts of \$34.0 million (increased to \$40.0 million in May 2007) and \$60.9 million. These agreements provide for a payment to the Company in the event LIBOR exceeds 8%, mitigating our exposure to increases in LIBOR. At May 31, 2009, the aggregate interest rate cap agreement notional amount was \$66.4 million.

We have analyzed the potential impact of changes in interest rates on interest income from investments net of interest expense on the Revolving Facility. Assuming that our investments at May 31, 2009 were to remain constant for a full fiscal year and no actions were taken to alter the existing interest rate terms, a hypothetical change of 1% in interest rates would cause a corresponding change of approximately \$0.2 million to our interest income net of interest expense.

Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could magnify or diminish our sensitivity to interest rate changes, nor does it account for divergences in LIBOR and the commercial paper rate, which have historically moved in tandem but, in times of unusual credit dislocations, have experienced periods of divergence. Accordingly, no assurances can be given that actual results would not materially differ from the potential outcome simulated by this estimate.

***Portfolio Valuation***

We carry our investments at fair value, as determined in good faith by our Board of Directors. Investments for which market quotations are readily available are fair valued at such market quotations. We value investments for which market quotations are not readily available at fair value as determined in good faith by our Board under our valuation policy and a consistently applied valuation process. For investments that are thinly traded, we review the depth and quality of the available quotations to determine if market quotations are readily available. If the available quotations are indicative only, we may determine that market quotations are not readily available. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material. In addition, changes in the market environment and other events

## [Table of Contents](#)

that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations that are assigned.

The types of factors that we may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, third party valuations, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly-traded securities, recent sales of or offers to buy comparable companies, and other relevant factors. The fair value of our investment in the subordinated notes of GSCIC CLO is based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for similar CLO subordinated notes or equity, when available.

The table below describes the primary considerations made by our Board of Directors in determining the fair value of our investments at May 31, 2009:

	<u>Fair Value</u>	<u>Percent of Total</u> <u>Investments</u>
	(\$ in thousands)	
Market yield trend analysis and enterprise valuation	\$ 50,469	41.6%
Third party independent valuation firm	41,857	34.5
Discounted cash flow model	19,208	15.8
Readily available market maker, broker quotes	9,657	8.0
Other	32	0.1
Total fair valued investments	<u>\$ 121,223</u>	<u>100.0%</u>

## ITEM 4. CONTROLS AND PROCEDURES

### *Evaluation of disclosure controls and procedures*

Our CEO and CFO have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, our CEO and CFO have concluded that our current disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

### *Changes in internal controls over financial reporting*

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) of the Exchange Act) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Neither we nor any of our subsidiaries are currently subject to any material legal proceedings, nor, to our knowledge, are any material legal proceedings threatened against us or our subsidiaries.

### 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 common stock. For a discussion of these risks, please refer to Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended February 28, 2009. In addition, please consider the following:

***An event of default under the Revolving Facility may lead to a forced liquidation of the pledged assets that may yield less than the fair value of the assets.***

A Borrowing Base deficiency that is not cured within 30 days constitutes an event of default under our Revolving Facility. Among the remedies available to the lenders under our Revolving Facility for an event of default is acceleration of the outstanding indebtedness and liquidation of the pledged assets. Given the unfavorable conditions in the credit markets, the pledged assets may be liquidated for less than their fair value. If the pledged assets are sold for less than fair value, the Company will incur realized losses

## [Table of Contents](#)

that will negatively affect net asset value and may negatively affect the price of our common stock. As a result, shareholders may realize less than the current net asset value of the common stock.

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

#### ***Sales of unregistered securities***

We did not sell any securities during the period covered by this report that were not registered under the Securities Act.

#### ***Issuer purchases of equity securities***

We did not purchase any shares of our equity securities during the period covered by this report.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14 of the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer and Chief Financial Officer Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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.

Date: July 13, 2009

GSC INVESTMENT CORP.

By /s/ SETH M. KATZENSTEIN

**Seth M. Katzenstein**  
**Director, Chief Executive Officer and President, GSC**  
**Investment Corp.**

By /s/ RICHARD T. ALLORTO, JR.

**Richard T. Allorto, Jr.**  
**Chief Financial Officer, GSC Investment Corp.**

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Seth M. Katzenstein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of GSC Investment Corp.;

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 company as of, and for, the periods presented in this report;

4. The company'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)) for the company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the company'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 company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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: July 13, 2009

/s/ Seth M. Katzenstein

Seth M. Katzenstein

Chief Executive Officer and President



**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Richard T. Allorto, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of GSC Investment Corp.;
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 company as of, and for, the periods presented in this report;
4. The company'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)) for the company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the company'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 company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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: July 13, 2009

/s/ Richard T. Allorto, Jr.

Richard T. Allorto, Jr.  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the accompanying Quarterly Report of GSC Investment Corp. on Form 10-Q (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Seth M. Katzenstein, the Chief Executive Officer and President and Richard T. Allorto, Jr., the Chief Financial Officer of GSC Investment Corp., each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of GSC Investment Corp.

Date: July 13, 2009

/s/ Seth M. Katzenstein

\_\_\_\_\_  
Seth M. Katzenstein

Chief Executive Officer and President

/s/ Richard T. Allorto, Jr.

\_\_\_\_\_  
Richard T. Allorto, Jr.

Chief Financial Officer