

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 September 30, 2020

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. 814-00735

Portman Ridge Finance Corporation

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

20-5951150
(I.R.S. Employer
Identification Number)

650 Madison Avenue, 23rd Floor
New York, New York 10022
(Address of principal executive offices)

(212) 891-2880
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	PTMN	The NASDAQ Global Select Market
6.125% Notes due 2022	KCAPL	The NASDAQ Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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 shares of common stock of the registrant as of November 5, 2020 was 44,169,060.

Part I. Financial Information

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NOTE ABOUT REFERENCES TO PORTMAN RIDGE FINANCE CORPORATION

In this Quarterly Report on Form 10-Q, the “Company”, “Portman Ridge”, “we”, “us” and “our” refer to Portman Ridge Finance Corporation and its wholly-owned subsidiaries, Great Lakes KCAP Funding I LLC, Great Lakes Portman Ridge Funding, LLC, OHA Investment Sub, LLC, OHA Asset Holdings II, LP, Kohlberg Capital Funding I LLC, KCAP Senior Funding I, LLC and KCAP Senior Funding I Holdings, LLC, unless the context otherwise requires.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

The information contained in this item should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report and in conjunction with the financial statements and notes thereto in the Company’s Form 10-K for the year ended December 31, 2019, as filed with the U.S. Securities and Exchange Commission (the “Commission” or the “SEC”). In addition, some of the statements in this report constitute forward-looking statements. The matters discussed in this Quarterly Report, as well as in future oral and written statements by management of Portman Ridge Finance Corporation, that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “outlook,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar words. Important assumptions include our ability to originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Quarterly Report should not be regarded as a representation by us that our plans or objectives will be achieved. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- our future operating results;
- our business prospects and the prospects of our existing and prospective portfolio companies;
- the return or impact of current and future investments;
- our contractual arrangements and other 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 financial condition and ability of our existing and prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- our ability to operate as a business development company (“BDC”) under the Investment Company Act of 1940 and a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, including the impact of changes in laws or regulations governing our operations;
- the adequacy of our available liquidity, cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of Sierra Crest Investment Management LLC (the “Adviser”) to locate suitable investments for us to monitor and administer our investments;
- the ability of the Adviser to attract and retain highly talented professionals;
- actual and potential conflicts of interest with the Adviser and its affiliates;
- the effect of legal, tax, and regulatory changes on us and our portfolio companies;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of fluctuations in interest rates on our business;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;

- our ability to recover unrealized losses;
- market conditions and our ability to access additional capital;
- the duration and effects of the COVID-19 pandemic on us and our portfolio companies;
- an economic downturn, including as a result of the impact of the COVID-19 pandemic, could have a material adverse effect on our portfolio companies' results of operations and financial condition, which could lead to a loss on some or all of our investments in such portfolio companies and have a material adverse effect on our results of operations and financial condition; and
- the timing, form and amount of any dividend distributions.

For a more detailed discussion of factors that could cause our actual results to differ from forward-looking statements contained in this Quarterly Report, please see the discussion in Part II, "Item 1A. Risk Factors" of this Quarterly Report, and in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. 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 this Quarterly Report is filed with the SEC.

PORTMAN RIDGE FINANCE CORPORATION
CONSOLIDATED BALANCE SHEETS

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	<u>(Unaudited)</u>	
ASSETS		
Investments at fair value:		
Short-term investments (cost: 2020 - \$10,219,782; 2019 - \$4,207,107)	\$ 10,219,782	\$ 4,207,107
Debt securities (amortized cost: 2020 - \$216,394,990; 2019 - \$194,686,364)	204,566,258	186,802,908
CLO Fund Securities managed by affiliates (amortized cost: 2020 - \$44,741,934; 2019 - \$45,099,076)	17,458,715	29,984,047
CLO Fund Securities managed by non-affiliates (amortized cost: 2020 - \$1,360,499; 2019 - \$1,519,641)	1,333,150	1,984,155
Equity securities (cost: 2020 - \$21,588,325; 2019 - \$22,160,993)	9,703,027	9,864,419
Asset Manager Affiliates (cost: 2020 - \$17,791,230; 2019 - \$17,791,230)	—	—
Joint Ventures (cost: 2020 - \$54,992,546; 2019 - \$48,594,539)	46,831,611	45,087,967
Derivatives (cost: 2020 - \$30,609; 2019 - \$30,609)	(1,033,048)	(33,437)
Total Investments at Fair Value (cost: 2020 - \$367,119,915; 2019 - \$334,089,559)	<u>289,079,495</u>	<u>277,897,166</u>
Cash	677,438	136,864
Restricted cash	4,907,105	4,967,491
Interest receivable	1,927,149	1,367,447
Receivable for unsettled trades	1,847,146	24,420,045
Due from affiliates	187,344	473,100
Other assets	1,508,694	1,112,150
Total Assets	<u>\$ 300,134,371</u>	<u>\$ 310,374,263</u>
LIABILITIES		
6.125% Notes Due 2022 (net of offering costs of: 2020-\$1,207,830; 2019 - \$1,651,946)	\$ 75,518,145	\$ 75,755,253
Great Lakes Portman Ridge Funding LLC Revolving Credit Facility (net of offering costs of: 2020-\$1,189,295; 2019 - \$1,462,364)	93,131,603	78,108,535
Payable for unsettled trades	—	—
Accounts payable and accrued expenses	1,574,838	1,386,981
Accrued interest payable	752,270	136,486
Due to affiliates	1,596,260	1,711,793
Management and incentive fees payable	1,615,157	1,076,645
Total Liabilities	<u>174,188,273</u>	<u>158,175,693</u>
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 45,098,322 issued, and 44,169,060 outstanding at September 30, 2020, and 45,024,535 issued, and 44,829,676 outstanding at December 31, 2019	441,691	448,297
Capital in excess of par value	450,601,352	451,353,379
Total distributable (loss) earnings	(325,096,945)	(299,603,106)
Total Stockholders' Equity	<u>125,946,098</u>	<u>152,198,570</u>
Total Liabilities and Stockholders' Equity	<u>\$ 300,134,371</u>	<u>\$ 310,374,263</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 2.85</u>	<u>\$ 3.40</u>

See accompanying notes to consolidated financial statements.

PORTMAN RIDGE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Investment Income:				
Interest from investments in debt securities	\$ 4,517,268	\$ 3,882,096	\$ 13,910,567	\$ 10,650,753
Payment-in-kind investment income	434,446	311,936	1,125,343	325,478
Interest from short-term investments	—	13,952	15,279	66,065
Investment income on CLO Fund Securities managed by affiliates	587,239	1,454,086	2,493,600	3,193,840
Investment income on CLO Fund Securities managed by non-affiliates	42,341	107,889	247,302	1,894,737
Investment income - Joint Ventures	2,182,466	1,300,590	4,760,485	3,542,257
Capital structuring service fees	23,602	5,647	302,887	116,645
Total investment income	7,787,362	7,076,196	22,855,463	19,789,775
Expenses:				
Management fees	1,043,645	1,026,000	3,063,719	2,052,100
Performance-based incentive fees	571,846	—	1,128,726	—
Interest and amortization of debt issuance costs	2,239,911	2,280,627	6,984,852	6,063,984
Compensation	—	—	—	3,688,578
Professional fees	439,503	644,485	1,810,450	2,827,131
Insurance	177,154	129,157	478,058	577,257
Administrative services expense	470,435	438,502	1,361,700	848,102
Other general and administrative expenses	147,818	314,992	522,091	1,374,606
Lease termination costs	—	—	—	1,431,030
Total expenses	5,090,312	4,833,763	15,349,596	18,862,788
Management and performance-based incentive fees waived	—	—	(556,880)	—
Net Expenses	5,090,312	4,833,763	14,792,716	18,862,788
Net Investment Income (Loss)	2,697,050	2,242,433	8,062,747	926,987
Realized And Unrealized Gains (Losses) On Investments:				
Net realized (losses) gains from investment transactions	(1,890,090)	(1,176,073)	(3,819,851)	(16,796,465)
Net change in unrealized appreciation (depreciation) on:				
Debt securities	4,553,027	(621,192)	(3,945,277)	3,584,578
Equity securities	337,258	(909,990)	411,276	(5,809,402)
CLO Fund Securities managed by affiliates	1,573,272	(2,715,673)	(12,168,189)	(3,330,808)
CLO Fund Securities managed by non-affiliates	363,430	55,174	(491,863)	2,531,746
Joint Venture Investments	1,146,355	(1,104,502)	(4,654,363)	2,897,649
Derivatives	(461,629)	(20,959)	(999,612)	(20,959)
Total net change in unrealized appreciation (depreciation)	7,511,713	(5,317,142)	(21,848,028)	(147,196)
Net realized and unrealized appreciation (depreciation) on investments	5,621,623	(6,493,215)	(25,667,879)	(16,943,661)
Realized gains on extinguishments of Debt	—	—	154,571	—
Net Increase (Decrease) In Stockholders' Equity Resulting From Operations	\$ 8,318,673	\$ (4,250,782)	\$ (17,450,561)	\$ (16,016,674)
Net Increase (Decrease) In Stockholders' Equity Resulting from Operations per Common Share:				
Basic:	\$ 0.19	\$ (0.11)	\$ (0.39)	\$ (0.43)
Diluted:	\$ 0.19	\$ (0.11)	\$ (0.39)	\$ (0.43)
Net Investment Income Per Common Share:				
Basic:	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.02
Diluted:	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.02
Weighted Average Shares of Common Stock Outstanding—Basic	44,417,783	37,361,746	44,616,502	37,348,835
Weighted Average Shares of Common Stock Outstanding—Diluted	44,417,783	37,361,746	44,616,502	37,348,835

See accompanying notes to consolidated financial statements.

PORTMAN RIDGE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS⁽¹⁾
(unaudited)

	For the Nine Months Ended September 30,	
	2020	2019
Operations:		
Net investment income	\$ 8,062,747	\$ 926,987
Net realized (losses) gains from investment transactions	(3,819,851)	(16,796,465)
Realized gains from extinguishments of debt	154,571	—
Net change in unrealized (depreciation) appreciation on investments	(21,848,028)	(147,196)
Net (decrease) increase in stockholders' equity resulting from operations	(17,450,561)	(16,016,674)
Stockholder distributions:	(8,043,278)	(9,707,773)
Capital share transactions:		
Issuance of common stock for:		
Dividend reinvestment plan	104,238	167,512
Stock repurchase	(862,871)	—
Stock based compensation	—	258,936
Net (decrease) increase in net assets resulting from capital share transactions	(758,633)	426,448
Net assets at beginning of period	152,198,570	158,021,011
Net assets at end of period	<u>\$ 125,946,098</u>	<u>\$ 132,723,012</u>
Net asset value per common share	<u>\$ 2.85</u>	<u>\$ 3.55</u>
Common shares outstanding at end of period	44,169,060	37,371,912

(1) Refer to note 10 "Stockholders' Equity" for additional information on changes in components of Stockholders' Equity

See accompanying notes to consolidated financial statements.

PORTMAN RIDGE FINANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Nine Months Ended September 30,	
	2020	2019
OPERATING ACTIVITIES:		
Net (decrease) increase in stockholders' equity resulting from operations	\$ (17,450,561)	\$ (16,016,674)
Adjustments to reconcile net (decrease) increase in stockholders' equity resulting from operations to net cash (used in) provided by in operations:		
Net realized losses on investment transactions	3,819,851	16,796,465
Net change in unrealized appreciation (depreciation) from investments	21,848,028	147,196
Purchases of investments	(107,085,081)	(106,626,968)
Proceeds from sales and redemptions of investments	75,298,827	80,926,508
Net accretion of investments	(4,683,861)	(5,001,145)
Amortization of debt issuance costs	705,256	787,011
Realized gains on extinguishments of debt	(154,571)	—
Net amortization of operating lease	—	(143,016)
Operating lease impairment	—	1,431,030
Net payment-in-kind interest income	(380,093)	(325,478)
Stock-based compensation	—	258,936
(Increase) decrease in operating assets:		
Receivable for unsettled trades	22,572,899	-
Interest and dividends receivable	(559,702)	94,598
Due from affiliates	285,756	336,685
Other assets	(396,544)	(419,565)
Increase (decrease) in operating liabilities:		
Payable for unsettled trades	—	8,284,443
Accrued interest payable	615,784	131,782
Management and incentive fees payable	538,512	1,026,000
Due to affiliates	(115,533)	365,338
Accounts payable and accrued expenses	187,857	(1,777,859)
Net cash used in operating activities	<u>(4,953,176)</u>	<u>(19,724,713)</u>
FINANCING ACTIVITIES:		
Debt issuance costs	(1,342)	(372,150)
Stock repurchase program	(862,871)	—
Distributions to stockholders	(7,939,040)	(9,540,261)
Repurchase of 6.125% Notes Due 2022	(513,383)	—
Borrowings from Revolving Credit Facilities	47,250,000	85,000,000
Repayment of Revolving Credit Facilities	(32,500,000)	(63,335,599)
Net cash provided by financing activities	<u>5,433,364</u>	<u>11,751,990</u>
CHANGE IN CASH AND RESTRICTED CASH	480,188	(7,972,722)
CASH AND RESTRICTED CASH, BEGINNING OF PERIOD	5,104,355	9,324,466
CASH AND RESTRICTED CASH, END OF PERIOD	<u>\$ 5,584,543</u>	<u>\$ 1,351,744</u>
Amounts per balance sheet:		
Cash	\$ 677,438	\$ 341,166
Restricted cash	4,907,105	1,010,578
Total Cash and Restricted cash	<u>\$ 5,584,543</u>	<u>\$ 1,351,744</u>
Supplemental Information:		
Interest paid during the period	\$ 5,663,812	\$ 4,772,071
Dividends paid during the period under the dividend reinvestment plan	\$ 104,238	\$ 167,512

See accompanying notes to consolidated financial statements.

PORTMAN RIDGE FINANCE CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
As of September 30, 2020
(unaudited)

Debt Securities Portfolio

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
Advanced Lighting Technologies, Inc. 7905 Cochran Road Suite 300 Glenwillow, OH 44139 Consumer goods: Durable	(5)(8)(13)	Junior Secured Loan — Second Lien Notes 8.0% Cash, 10.0% PIK, 3 Month Libor (1.00%) + 7.00%; Libor Floor 1.00% , Due 10/23	6/13/2012	\$ 1,400,030	\$ 951,271	\$ 2,940
Advantage Capital Holdings LLC 415 Bedford Road - Suite 102 Pleasantville NY, 10570 Banking, Finance, Insurance & Real Estate	(8)(13)(14) (22)	Senior Secured Loan — Delayed Draw Term Loan 5.0% Cash, 8.0% PIK, Due 1/25	2/14/2020	-	-	2,395
Advantage Capital Holdings LLC 415 Bedford Road - Suite 102 Pleasantville NY, 10570 Banking, Finance, Insurance & Real Estate	(8)(13)(14) (22)	Senior Secured Loan — Term Loan 5.0% Cash, 8.0% PIK, Due 1/25	2/14/2020	2,422,152	2,422,152	2,425,301
Advantage Capital Holdings LLC 415 Bedford Road - Suite 102 Pleasantville NY, 10570 Banking, Finance, Insurance & Real Estate	(8)(13)(14) (22)	Senior Secured Loan — Delayed Draw Term Loan 5.0% Cash, 8.0% PIK, Due 1/25	2/14/2020	934,610	934,610	935,825
Akumin Corp. 8300 W. Sunrise Boulevard Plantation, FL, 33322 Healthcare & Pharmaceuticals	(8)(13)(14)	Senior Secured Loan — Initial Term B Loan 7.0% Cash, 1 Month Libor (1.00%) + 6.00%; Libor Floor 1.00% , Due 5/24	5/31/2019	2,236,734	2,197,355	2,141,449
Allied Universal Holdco LLC 161 Washington St, Suite 600, Conshohocken, PA 19428 Services: Business	(8)(14)(22)	Senior Secured Loan — Initial Term Loan 4.4% Cash, 1 Month Libor (0.15%) + 4.25% , Due 7/26	3/23/2020	5,169,539	4,296,005	5,123,841
Anthem Sports & Entertainment Inc. 8269 E. 23rd Ave Denver, CO 80238 Media: Broadcasting & Subscription	(8)(13)(14) (22)	Senior Secured Loan — Revolving Loan 4.3% Cash, 2.8% PIK, 3 Month Libor (1.00%) + 3.35%; Libor Floor 1.00% , Due 9/24	9/9/2019	416,667	383,812	376,583
Anthem Sports & Entertainment Inc. 8269 E. 23rd Ave Denver, CO 80238 Media: Broadcasting & Subscription	(8)(13)(14) (22)	Senior Secured Loan — Term Loan 9.1% Cash, 2.8% PIK, 3 Month Libor (1.00%) + 8.15%; Libor Floor 1.00% , Due 9/24	9/9/2019	3,820,769	3,708,349	3,679,400
BMC Acquisition, Inc. (aka BenefitMall) 12404 Park Central Drive, Suite 400S Dallas, TX, 75251 Banking, Finance, Insurance & Real Estate	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 6.3% Cash, 6 Month Libor (1.00%) + 5.25%; Libor Floor 1.00% , Due 12/24	1/2/2018	2,917,500	2,916,459	2,815,096
C.P. Converters Acquisition, Inc. 15 Grumbacher Rd, York, PA 17406 Chemicals, Plastics & Rubber	(8)(13)(14)	Senior Secured Loan — Seventh Amendment Acquisition Loan 8.8% Cash, Prime (3.25%) + 5.50%; Libor Floor 1.00% , Due 6/23	6/26/2020	2,962,500	2,895,047	2,935,838

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
Care Hospice Acquisition, Inc. 500 Faulconer Drive, Suite 200 Charlottesville, VA 22903 Healthcare & Pharmaceuticals	(8)(13) (14)	Senior Secured Loan — Term Loan 6.3% Cash, 1 Month Libor (1.00%) + 5.25%; Libor Floor 1.00% , Due 4/22	4/17/2020	4,974,969	4,936,679	4,981,436
Carestream Health, Inc. 150 Verona Street, Rochester, NY 14608 Healthcare & Pharmaceuticals	(8)(13) (14)	Junior Secured Loan — 2023 Extended Term Loan (Second Lien) 5.5% Cash, 8.0% PIK, 6 Month Libor (1.00%) + 4.50%; Libor Floor 1.00% , Due 8/23	5/8/2020	1,596,869	1,405,008	1,328,914
Child Development Schools, Inc. 6053 Veterans Pkwy, Bldg 300, Columbus, GA 31909 Services: Consumer	(8)(13) (14)	Senior Secured Loan — Term Loan 5.3% Cash, 3 Month Libor (1.00%) + 4.25%; Libor Floor 1.00% , Due 5/23	6/6/2018	4,314,719	4,308,990	4,193,044
Coinamatic Canada Inc. (fka 8433143 Canada Limited) 301 Matheson Blvd West, Mississauga, ON, L5R 3G3, Canada Consumer goods: Durable	(3)(13) (14)	Junior Secured Loan — Initial Canadian Term Loan (Second Lien) 8.0% Cash, 1 Month Libor (1.00%) + 7.00%; Libor Floor 1.00% , Due 5/23	12/18/2019	521,646	461,244	452,528
Colibri Group, LLC McKissock, LLC 218 Liberty Street, Warren, PA 16365 Services: Business	(8)(13)(14) (20)(22)	Senior Secured Loan — Last out DDTL 9.1% Cash, 3 Month Libor (1.00%) + 8.05%; Libor Floor 1.00% , Due 5/25	3/31/2020	932,983	926,675	923,933
Colibri Group, LLC McKissock, LLC 218 Liberty Street, Warren, PA 16365 Services: Business	(8)(13)(14) (20)(21)	Senior Secured Loan — Last Out Term Loan 9.1% Cash, 3 Month Libor (1.00%) + 8.05%; Libor Floor 1.00% , Due 5/25	3/31/2020	6,033,990	5,993,197	5,975,461
Colibri Group, LLC McKissock, LLC 218 Liberty Street, Warren, PA 16365 Services: Business	(8)(13)(14) (20)(22)	Senior Secured Loan — Last Out Second Amendment TL 9.1% Cash, 3 Month Libor (1.00%) + 8.05%; Libor Floor 1.00% , Due 5/25	3/31/2020	690,407	685,740	683,710
CSM Bakery Solutions Limited (fka CSM Bakery Supplies Limited) 2711 Centerville Road, Suite 400, Wilmington, DE 19808 Beverage, Food and Tobacco	(8)(14)	Senior Secured Loan — Term Loan (First Lien) 7.3% Cash, 3 Month Libor (1.00%) + 6.25%; Libor Floor 1.00% , Due 1/22	6/11/2020	1,265,625	1,245,521	1,182,094
CSM Bakery Solutions Limited (fka CSM Bakery Supplies Limited) 2711 Centerville Road, Suite 400, Wilmington, DE 19808 Beverage, Food and Tobacco	(8)(14)	Junior Secured Loan — Term Loan (Second Lien) 11.0% Cash, 3 Month Libor (1.00%) + 10.00%; Libor Floor 1.00% , Due 2/22	6/11/2020	3,083,490	3,087,272	2,631,250
Deliver Buyer Inc. 131 Griffin Way, Mount Washington, KY 40047 Capital Equipment	(8)(13)(14)	Senior Secured Loan — Incremental Term Loan (First Lien) 7.3% Cash, 3 Month Libor (1.00%) + 6.25%; Libor Floor 1.00% , Due 5/24	7/1/2020	2,900,000	2,818,014	2,813,000
Dental Implant Holdings, LLC 8350 E. Crescent Pkwy, Suite 30, Greenwood Village, CO 80111 Healthcare & Pharmaceuticals	(8)(13)	Senior Secured Loan — Revolving Loan 8.0% Cash, 3 Month Libor (1.00%) + 7.00%; Libor Floor 1.00% , Due 1/23	12/18/2019	-	-	(127,016)
Dental Implant Holdings, LLC 8350 E. Crescent Pkwy, Suite 30, Greenwood Village, CO 80111 Healthcare & Pharmaceuticals	(8)(13)(14) (20)	Senior Secured Loan — Term Loan 8.0% Cash, 1 Month Libor (1.00%) + 7.00%; Libor Floor 1.00% , Due 1/23	12/18/2019	500,000	460,705	463,050

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.) Jachthavenweg 109 H, Amsterdam, 1081 KM , Netherlands High Tech Industries	(3)(13)	Senior Secured Loan — EUR Term Loan A 0.0% Cash, 5.0% PIK, Due 5/25	5/11/2020	284,616	283,322	255,896
Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.) Jachthavenweg 109 H, Amsterdam, 1081 KM , Netherlands High Tech Industries	(8)(13)	Senior Secured Loan — Senior Term Loan A 0.0% Cash, 5.0% PIK, Due 5/25	5/29/2020	1,448,991	1,033,767	1,122,968
Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.) Jachthavenweg 109 H, Amsterdam, 1081 KM , Netherlands High Tech Industries	(5)(8)(13)	Senior Secured Loan — Senior Term Loan B 0.0% Cash, 7.0% PIK, Due 5/25	5/29/2020	1,458,881	1,043,657	488,725
Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.) Jachthavenweg 109 H, Amsterdam, 1081 KM , Netherlands High Tech Industries	(8)(13)	Senior Secured Loan — Super Senior Term Loan B 2.0% Cash, 7.0% PIK, Due 5/25	5/29/2020	959,944	942,980	940,745
Drilling Info Holdings, Inc. 2901 Via Fortuna #200 Austin, TX 78746 High Tech Industries	(8)(13)(14) (22)	Senior Secured Loan — 2019 Delayed Draw Term Loan (First Lien) 2.0% Cash, Due 7/25	6/27/2019	(0)	(1,451)	(18,464)
Drilling Info Holdings, Inc. 2901 Via Fortuna #200 Austin, TX 78746 High Tech Industries	(8)(13)(14) (22)	Senior Secured Loan — Initial Term Loan (First Lien) 4.4% Cash, 1 Month Libor (0.15%) + 4.25% , Due 7/25	6/27/2019	466,812	466,812	443,144
Drilling Info Holdings, Inc. 2901 Via Fortuna #200 Austin, TX 78746 High Tech Industries	(8)(13)(14) (22)	Senior Secured Loan — 2020 Term Loan (First Lien) 4.7% Cash, 1 Month Libor (0.15%) + 4.50% , Due 7/25	2/14/2020	995,000	990,599	940,872
Edelman Financial Center, LLC, The (fka Flight Debt Merger Sub Inc.) 4000 Legato Road, 9th Floor Fairfax, VA 22033 Banking, Finance, Insurance & Real Estate	(8)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 6.9% Cash, 1 Month Libor (0.15%) + 6.74% , Due 7/26	12/18/2019	300,000	271,394	288,282
Ensono, LP (formerly known as Acxiom IT Outsourcing, LP) 3333 Finley Road Downers Grove, IL 60515 Telecommunication	(8)(13)(14)	Junior Secured Loan — Term Loan (Second Lien) 9.4% Cash, 1 Month Libor (0.15%) + 9.25% , Due 6/26	12/18/2019	1,700,000	1,523,075	1,610,410
Evergreen North America Acquisition, LLC (f/k/a Industrial Services Acquisition, LLC) 704-C Old Undewood Rd. La Porte, Texas 77571 Environmental Industries	(8)(13)(14)	Senior Secured Loan — Term Loan 6.0% Cash, 3 Month Libor (1.00%) + 5.00%; Libor Floor 1.00% , Due 6/22	6/21/2016	991,412	993,196	965,139
Firstlight Holdco Inc. 491 Lisbon Street Lewistown, ME 04240 Telecommunication	(8)(13)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 7.7% Cash, 1 Month Libor (0.15%) + 7.50% , Due 7/26	12/18/2019	400,000	360,277	379,240
GI Advo Opco, LLC 2520 Wrangle Hill Rd, Ste 200 Bear, DE 19701 Healthcare & Pharmaceuticals	(5)(8)	Senior Secured Loan — Initial Term Loan (First Lien) 11.0% Cash, Prime (7.00%) + 4.00% , Due 11/21	11/19/2015	180,304	164,853	-

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
GI Revelation Acquisition LLC 283 Greenwich Ave, Greenwich, CT 06830 Services: Business	(8)(13)(14)	Senior Secured Loan — Initial Term Loan (First Lien) 5.2% Cash, 1 Month Libor (0.15%) + 5.00% , Due 4/25	5/22/2020	3,912,450	3,475,135	3,698,439
GK Holdings, Inc. (aka Global Knowledge) 9000 Regency Parkway Suite 400, Cary, NC 27518 Services: Business	(5)(8)(13)	Junior Secured Loan — Initial Term Loan (Second Lien) 13.3% Cash, 3 Month Libor (1.00%) + 12.25%; Libor Floor 1.00% , Due 1/22	1/30/2015	1,500,000	1,494,378	819,600
Global Tel*Link Corporation 12021 Sunset Hills Road, Suite 100, Reston, VA 20190 Telecommunication	(8)(14)	Junior Secured Loan — Loan (Second Lien) 8.4% Cash, 1 Month Libor (0.15%) + 8.25% , Due 11/26	5/21/2013	1,500,000	1,480,205	1,047,750
Grupo HIMA San Pablo, Inc. P.O. Box 4980 Caguas, PR 00726 Healthcare & Pharmaceuticals	(5)(8)(13) (14)	Junior Secured Loan — Term Loan (Second Lien) 13.8% Cash, Due 7/18	1/30/2013	7,191,667	7,146,178	1,927,367
Grupo HIMA San Pablo, Inc. P.O. Box 4980 Caguas, PR 00726 Healthcare & Pharmaceuticals	(8)(13)(14)	Senior Secured Loan — Term B Loan (First Lien) 10.5% Cash, 3 Month Libor (2.00%) + 8.50%; Libor Floor 2.00% , Due 1/18	1/30/2013	2,702,232	2,702,232	2,411,742
Hayward Industries, Inc. 620 Division Street, Elizabeth, NJ 07207 Consumer goods: Durable	(8)(13)(14)	Junior Secured Loan — Initial Loan (Second Lien) 8.4% Cash, 1 Month Libor (0.15%) + 8.25% , Due 8/25	12/18/2019	2,159,333	1,879,348	2,021,568
Helix Acquisition Holdings, Inc. (aka MW Industries, Inc) 9501 Technology Boulevard, Suite 401, Rosemont, IL 60018 Metals & Mining	(8)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 8.2% Cash, 3 Month Libor (0.24%) + 7.98% , Due 9/25	12/18/2019	1,400,000	1,209,583	1,205,169
Hoffmaster Group, Inc. 2920 N. Main Street P.O. Box 2038 Oshkosh, WI 54903 Forest Products & Paper	(8)(13)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 10.5% Cash, 3 Month Libor (1.00%) + 9.50%; Libor Floor 1.00% , Due 11/24	5/6/2014	1,600,000	1,575,119	1,244,480
Idera, Inc. 2950 North Loop Freeway West Suite 700, Houston, TX 77042 High Tech Industries	(8)(13)(14) (22)	Junior Secured Loan — Loan (Second Lien) 10.0% Cash, 3 Month Libor (1.00%) + 9.00%; Libor Floor 1.00% , Due 6/27	6/27/2019	7,500,000	7,404,894	7,219,500
Infobase Holdings, Inc. 132 West 31st Street New York, NY 10001 High Tech Industries	(8)(13)(14)	Senior Secured Loan — Term Loan 5.5% Cash, 3 Month Libor (1.00%) + 4.50%; Libor Floor 1.00% , Due 12/22	12/13/2017	1,862,500	1,853,251	1,853,001
Infobase Holdings, Inc. 132 West 31st Street New York, NY 10001 High Tech Industries	(8)(13)(14)	Senior Secured Loan — Term Loan (add on) 5.5% Cash, 3 Month Libor (1.00%) + 4.50%; Libor Floor 1.00% , Due 12/22	12/13/2017	1,974,625	1,964,821	1,964,554
Ivanti Software, Inc. (fka LANDesk Group, Inc.) 10377 South Jordan Gateway, Suite 110, South Jordan, UT 84095 High Tech Industries	(8)	Junior Secured Loan — Loan (Second Lien) 10.0% Cash, 1 Month Libor (1.00%) + 9.00%; Libor Floor 1.00% , Due 1/25	3/10/2017	1,228,619	1,228,619	1,193,812
Location Services Holdings, LLC 3923 Rancho Drive Ann Arbor, MI 48108 Services: Business	(8)(13)(14) (22)	Senior Secured Loan — Revolving Credit 5.1% Cash, 1 Month Libor (1.00%) + 4.13%; Libor Floor 1.00% , Due 5/20	11/7/2019	2,291,667	2,291,667	2,197,917

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
Ministry Brands, LLC (aka MB Holding) 14488 Old Stage Rd, Lenoir City, TN 37772 Electronics	(8)(13)(14)	Junior Secured Loan — April 2018 Incremental Term Loan (Second Lien) 9.0% Cash, 3 Month Libor (1.00%) + 8.00%; Libor Floor 1.00% , Due 6/23	12/18/2019	6,000,000	5,508,728	5,595,000
Nasco Healthcare Inc. 96 Cimmings Point Road, Stamford, CT 06902 Healthcare, Education and Childcare	(8)(13)(14) (22)	Senior Secured Loan — Term Loan 5.5% Cash, 6 Month Libor (1.00%) + 4.50%; Libor Floor 1.00% , Due 6/21	5/22/2020	4,521,047	4,083,122	4,139,471
Navex Topco, Inc. 6000 Meadows Road, Suite 200, Lake Oswego, OR 97035 Electronics	(8)(14)(18)	Junior Secured Loan — Initial Term Loan (Second Lien) 7.2% Cash, 1 Month Libor (0.15%) + 7.00% , Due 9/26	12/4/2018	7,700,000	7,203,661	7,497,875
PAE Holding Corporation 1320 N. Courthouse Road Suite 800 Arlington, VA 22201 Aerospace and Defense	(8)(13)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 10.5% Cash, 3 Month Libor (1.00%) + 9.50%; Libor Floor 1.00% , Due 10/23	12/18/2019	3,343,347	3,031,833	3,322,618
PHI Group, Inc. 2001 SE Evangeline Thruway, Lafayette, LA 70508 Transportation: Cargo	(8)(14)(22)	Senior Secured Loan — Loan 8.0% Cash, 1 Month Libor (1.00%) + 7.00%; Libor Floor 1.00% , Due 9/24	7/10/2019	6,734,438	6,627,019	6,869,126
Phoenix Guarantor Inc. (aka Brightspring) 805 North Whittington Parkway, Louisville, KY 40222 Healthcare & Pharmaceuticals	(8)(13)(14)	Junior Secured Loan — Term Loan Second Lien 9.3% Cash, 1 Month Libor (1.00%) + 8.25%; Libor Floor 1.00% , Due 3/27	12/18/2019	1,200,000	1,096,167	1,172,760
Pinstripe Holdings, LLC (Aka Cielo) 200 S Executive Drive, Suite 400, Brookfield, WI 53005 Services: Business	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 7.0% Cash, 6 Month Libor (1.00%) + 6.00%; Libor Floor 1.00% , Due 1/25	1/17/2019	4,925,000	4,854,112	4,505,390
PromptCare Companies, The 41 Spring Street New Providence, NJ 07974 Healthcare & Pharmaceuticals	(8)(13)(14) (22)	Senior Secured Loan — First Delayed Draw Term Loan 6.3% Cash, 1 Month Libor (1.00%) + 5.25%; Libor Floor 1.00% , Due 12/25	2/20/2020	541,364	536,517	541,255
PromptCare Companies, The 41 Spring Street New Providence, NJ 07974 Healthcare & Pharmaceuticals	(8)(13)(14) (22)	Senior Secured Loan — Second Delayed Draw Term Loan 1.0% Cash, Due 12/25	2/20/2020	-	(2,443)	(2,727)
PromptCare Companies, The 41 Spring Street New Providence, NJ 07974 Healthcare & Pharmaceuticals	(8)(13)(14) (22)	Senior Secured Loan — Term Loan 6.3% Cash, 1 Month Libor (1.00%) + 5.25%; Libor Floor 1.00% , Due 12/25	2/20/2020	3,879,773	3,845,037	3,878,997
PSC Industrial Holdings Corp. 5151 San Felipe, Ste. 1100, Houston, TX 77056 Environmental Industries	(8)(13)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 9.7% Cash, 6 Month Libor (1.23%) + 8.50%; Libor Floor 1.00% , Due 10/25	10/5/2017	3,000,000	2,960,944	2,636,700
PVHC Holding Corp 5711 Old Buncombe Road, Greenville, SC 29609 Containers, Packaging and Glass	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 5.8% Cash, 3 Month Libor (1.00%) + 4.75%; Libor Floor 1.00% , Due 8/24	8/10/2018	2,822,400	2,813,322	2,511,372

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
Radiology Partners, Inc. 2101 El Segundo Boulevard, Suite 401, El Segundo, CA 90245 Healthcare & Pharmaceuticals	(8)(14)(22)	Senior Secured Loan — Term B Loan (First Lien) 6.0% Cash, 12 Month Libor (1.74%) + 4.25%, Due 7/25	3/24/2020	7,000,000	5,785,448	6,735,750
Radius Aerospace, Inc. 5425 Wisconsin Avenue, Suite 200, Chevy Chase, MD 20815 Aerospace and Defense	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 6.8% Cash, 3 Month Libor (1.00%) + 5.75%; Libor Floor 1.00%, Due 3/25	6/27/2019	6,895,000	6,814,157	6,571,624
Ravn Air Group, Inc. 4700 Old International Airport Road, Anchorage, AK 99502 Aerospace and Defense	(5)(8)(13)(14)	Senior Secured Loan — Initial Term Loan 6.0% Cash, 3 Month Libor (1.00%) + 5.00%; Libor Floor 1.00%, Due 7/21	7/29/2015	1,116,176	272,124	247,679
Robertshaw US Holding Corp. (fka Fox US Bidco Corp.) 1222 Hamilton Parkway Itasca, IL 60143 Capital Equipment	(8)	Junior Secured Loan — Initial Term Loan (Second Lien) 9.0% Cash, 6 Month Libor (1.00%) + 8.00%; Libor Floor 1.00%, Due 2/26	2/15/2018	3,000,000	2,979,671	1,852,500
Roscoe Medical, Inc. 21973 Commerce Parkway, Strongsville, OH 44149 Healthcare & Pharmaceuticals	(8)(13)	Junior Secured Loan — Term Loan (Second Lien) 11.3% Cash, Due 3/21	3/26/2014	6,700,000	6,685,924	7,563,000
Safe Fleet Holdings LLC 6800 East 163rd Street, Belton, MO 64012 Automotive	(8)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 7.8% Cash, 6 Month Libor (1.00%) + 6.75%; Libor Floor 1.00%, Due 2/26	12/18/2019	700,000	620,301	591,500
San Vicente Capital LLC 11726 San Vicente Blvd., Suite 300 Los Angeles, CA 90049 Telecommunication	(8)(13)(14)	Senior Secured Loan — Term Loan 9.5% Cash, 3 Month Libor (2.00%) + 7.50%; Libor Floor 2.00%, Due 6/25	6/10/2020	3,000,000	2,957,784	3,000,000
SCSG EA Acquisition Company, Inc. 1 American Center, 3100 West End Avenue, Suite 150 Nashville, TN 37203 Healthcare & Pharmaceuticals	(8)(13)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 9.3% Cash, 3 Month Libor (1.00%) + 8.25%; Libor Floor 1.00%, Due 9/24	8/18/2017	6,000,000	5,965,897	5,682,000
Smartronix, Inc. 23540 Cottonwood Pkwy, California, MD 20619 Services: Business	(8)(13)(14)(22)	Senior Secured Loan — Initial Term Loan 7.5% Cash, 3 Month Libor (2.00%) + 5.50%; Libor Floor 2.00%, Due 12/25	5/1/2020	4,974,937	4,743,559	4,790,367
Syndigo LLC 141 W. Jackson Blvd, Ste. 1220 Chicago, IL 60604 Services: Business	(8)(13)(14)	Senior Secured Loan — 2019 Incremental Term Loan 6.5% Cash, 6 Month Libor (1.00%) + 5.50%; Libor Floor 1.00%, Due 10/24	8/23/2019	7,857,701	7,733,455	7,618,827
Tailwind Randys, LLC 485 Lexington Avenue, New York, NY 10017 Automotive	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 6.0% Cash, 3 Month Libor (1.00%) + 5.00%; Libor Floor 1.00%, Due 5/25	6/27/2019	4,937,500	4,869,538	4,773,575
Tank Partners Equipment Holdings LLC 575 Fifth Avenue 14th Floor, New York NY 10017 Energy: Oil & Gas	(5)(8)(9)(13)	Senior Unsecured Bond — 10.000% - 02/2022 - TankConvert 0.0% Cash, 10.0% PIK, Due 2/22	2/15/2019	699,199	620,146	301,984

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
Tex-Tech Industries, Inc. One City Center, 11th Floor, Portland, ME 04101 Textiles and Leather	(8)(13)(14)	Junior Secured Loan — Term Loan (Second Lien) 10.0% Cash, 3 Month Libor (1.00%) + 9.00%; Libor Floor 1.00% , Due 8/24	8/24/2017	12,508,000	12,408,780	11,382,280
TLE Holdings, LLC 210 Hillsboro Technology Drive, Deerfield Beach, FL 33441 Healthcare, Education and Childcare	(8)(13)(14)	Senior Secured Loan — Delayed Draw Term Loan 7.0% Cash, 6 Month Libor (1.00%) + 6.00%; Libor Floor 1.00% , Due 6/24	6/27/2019	746,640	745,343	704,679
TLE Holdings, LLC 210 Hillsboro Technology Drive, Deerfield Beach, FL 33441 Healthcare, Education and Childcare	(8)(13)(14)(22)	Senior Secured Loan — Initial Term Loan 7.0% Cash, 6 Month Libor (1.00%) + 6.00%; Libor Floor 1.00% , Due 6/24	6/27/2019	5,645,596	5,625,975	5,328,313
TronAir Parent Inc. One Embarcadero Center, 39th Floor, San Francisco, CA 94111 Aerospace and Defense	(8)(13)(14)(22)	Senior Secured Loan — Initial Term Loan (First Lien) 5.8% Cash, 3 Month Libor (1.00%) + 4.75%; Libor Floor 1.00% , Due 9/23	9/30/2016	969,697	968,446	826,085
TRSO I, Inc. 2700 E. Interstate 20 P.O. Box 2488, Odessa, TX 79760 Energy: Oil & Gas	(8)(13)(14)	Junior Secured Loan — Term Loan (Second Lien) 14.0% Cash, 3 Month Libor (1.00%) + 13.00%; Libor Floor 1.00% , Due 5/20	12/24/2012	1,000,000	999,962	1,000,000
TRSO II, Inc. 2700 E. Interstate 20 P.O. Box 2488, Odessa, TX 79760 Energy: Oil & Gas	(5)(8)(13)	Junior Secured Loan — Promissory Note 0.0% Cash, 1.7% PIK, Due 1/25	1/24/2020	71,321	71,322	-
Vectra Co. 120 South Central Ave., Suite 200, St. Louis, MO 63105 Chemicals, Plastics & Rubber	(8)(14)	Junior Secured Loan — Initial Loan (Second Lien) 7.4% Cash, 1 Month Libor (0.15%) + 7.25% , Due 3/26	12/18/2019	400,000	352,407	377,000
Wash MultiFamily Acquisition Inc. 100 N. Spulveda Boulevard, 12th Floor, El Segundo, CA 90245 Consumer goods: Durable	(8)(13)(14)	Junior Secured Loan — Initial US Term Loan (Second Lien) 8.0% Cash, 1 Month Libor (1.00%) + 7.00%; Libor Floor 1.00% , Due 5/23	12/18/2019	2,978,354	2,633,233	2,583,722
WireCo WorldGroup Inc. 2400 W75th St., Prairie Village, KS 66208 Capital Equipment	(8)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 10.0% Cash, 6 Month Libor (1.00%) + 9.00%; Libor Floor 1.00% , Due 9/24	8/9/2016	3,000,000	2,977,491	2,325,000
Wonder Love, Inc. 1875 Century Park East, Suite 1200, Los Angeles, CA 90067 Media: Diversified & Production	(8)(13)(14)(22)	Senior Secured Loan — Term Loan 6.0% Cash, 3 Month Libor (1.00%) + 5.00%; Libor Floor 1.00% , Due 11/24	11/18/2019	2,775,000	2,729,175	2,584,357
Zest Acquisition Corp. 2875 Loker Avenue East, Carlsbad, CA 92010 Healthcare, Education and Childcare	(8)(13)(14)(18)	Junior Secured Loan — Initial Term Loan (Second Lien) 8.7% Cash, 1 Month Libor (1.00%) + 7.66%; Libor Floor 1.00% , Due 3/26	3/8/2018	3,500,000	3,464,818	2,896,250
Total Investment in Debt Securities (162% of net asset value at fair value)				\$ 226,246,739	\$ 216,394,990	\$ 204,566,258

Equity Securities Portfolio

Portfolio Company / Principal Business	Investment ¹⁵	Initial Acquisition Date	Percentage Ownership/Shares	Cost	Fair Value ²
4L Technologies Inc.(8)(13)(19) 4200 Columbus Street Ottawa, IL 61350 Healthcare & Pharmaceuticals	Class A Preferred Units	5/29/2020	0.00%	29,277	29,275
AAPC Holdings LLC.(8)(13)(22)(23) 2222 Sedwick Drive Durham, NC 27713 Healthcare & Pharmaceuticals	Class A Preferred Units; 18% PIK; No maturity	6/27/2019	2.99%	5,500,000	5,500,000
Advanced Lighting Technologies, Inc.(8)(13)(19) 7905 Cochran Road Suite 300 Glenwillow, OH 44139 Consumer goods: Durable	Warrant	6/13/2012	1.90%	—	—
Advanced Lighting Technologies, Inc.(8)(13)(19) 7905 Cochran Road Suite 300 Glenwillow, OH 44139 Consumer goods: Durable	Membership Interests	6/13/2012	0.40%	182,000	1,000
Advantage Capital Holdings LLC(8)(13)(19)(23) 415 Bedford Road - Suite 102, Pleasantville, NY, 10570 Banking, Finance, Insurance & Real Estate	Class A Membership Units	2/14/2020	0.51%	—	—
Anthem Sports & Entertainment Inc. (8)(13)(19)(22) 8269 E. 23rd Ave Denver, CO 80238 Media: Broadcasting & Subscription	Warrant Class A, 9/29 maturity	9/9/2019	0.50%	43,887	86,241
Anthem Sports & Entertainment Inc. (8)(13)(19)(22) 8269 E. 23rd Ave Denver, CO 80238 Media: Broadcasting & Subscription	Warrant Class B, 9/29 maturity	9/9/2019	0.50%	—	—
Anthem Sports & Entertainment Inc. (8)(13)(19)(22) 8269 E. 23rd Ave Denver, CO 80238 Media: Broadcasting & Subscription	Warrant Common Stock, 9/29 maturity	9/9/2019	0.50%	—	—
ATP Oil & Gas Corporation(8)(12)(19) 4600 Post Oak Place, Suite 100, Houston, TX, 77027 Energy: Oil & Gas	Limited Term Royalty Interest	12/18/2019	5.00%	2,395,470	2,035,521
Carestream Health Inc. (8)(12)(19) 150 Verona Street, Rochester, NY 14608 Healthcare & Pharmaceuticals	Warrants	3/13/2019	0.00%	—	—
eInstruction Acquisition, LLC(8)(13)(19) 255 W Federal St, Youngstown, OH 44503 Services: Business	Membership Units	7/2/2007	1.10%	1,079,617	1,000
EJF Investments Ltd.(3)(13)(19) 399 Park Ave, New York, NY 10043 Services: Business	Preferred Equity, 0%; 6/25 maturity	6/17/2020	3.00%	1,256,485	1,317,840
FP WRCA Coinvestment Fund VII, Ltd.(3)(13)(19) 2400 W75th St., Prairie Village, KS 66208 Capital Equipment	Class A Shares	2/2/2007	0.21%	1,500,000	480,150
New Millennium Holdco, Inc. (Millennium Health, LLC)(8)(13)(19) 16981 Via Tazon, San Diego, CA 92127 Healthcare & Pharmaceuticals	Common	10/7/2014	0.20%	1,953,300	1,000
Roscoe Investors, LLC(8)(13)(19) 60 East 42nd St., Suite 4510, New York, NY 10165 Healthcare & Pharmaceuticals	Class A Units	3/26/2014	1.56%	1,000,000	251,000
Tank Partners Equipment Holdings, LLC(8)(9)(13)(16)(19) 175 Varick Street, New York, NY 10014 Energy: Oil & Gas	Class A Units	8/28/2014	48.5%	6,228,000	—
Ohene Holdings B.V.(3)(13)(19) Gustav Mahlerplein 23 A Symp 5th, Amsterdam, 1082MS Services: Business	Warrants	3/31/2019	0.2%	—	—
TRSO II, Inc.(8)(13)(19) 2700 E. Interstate 20 P.O. Box 2488, Odessa, TX 79760 Energy: Oil & Gas	Common Stock	12/24/2012	5.40%	420,289	—
Total Investment in Equity Securities (8% of net asset value at fair value)				\$ 21,588,325	\$ 9,703,027

CLO Subordinated Investments

Portfolio Company	Investment ^{15,11}	Initial Acquisition Date	Percentage Ownership	Amortized Cost	Fair Value ²
Catamaran CLO 2013- 1 Ltd.(3)(6)(13)(18)(21) Boundary Hall, Cricket Square PO Box 1093, Grand Cayman, Ky1-1102 Cayman Islands	Subordinated Securities, effective interest 3.3%, 1/28 maturity	6/4/2013	23.3%	6,076,766	2,709,871
Catamaran CLO 2014-1 Ltd.(3)(6)(13)(18) Boundary Hall, Cricket Square PO Box 1093, Grand Cayman, Ky1-1102 Cayman Islands	Subordinated Securities, effective interest 4.7%, 4/30 maturity	5/6/2014	22.2%	10,094,797	2,331,700
Dryden 30 Senior Loan Fund(3)(13) 655 Broad Street 8th Floor, Newark, NJ 07102	Subordinated Securities, effective interest 11.4%, 11/28 maturity	10/10/2013	6.8%	1,360,501	1,333,150
Catamaran CLO 2014-2 Ltd.(3)(6)(13)(18)(21) Boundary Hall, Cricket Square PO Box 1093, Grand Cayman, Ky1-1102 Cayman Islands	Subordinated Securities, effective interest 0.0%, 10/26 maturity	8/15/2014	24.9%	6,065,598	-
Catamaran CLO 2015-1 Ltd.(3)(6)(13)(18)(21) Boundary Hall, Cricket Square PO Box 1093, Grand Cayman, Ky1-1102 Cayman Islands	Subordinated Securities, effective interest 3.2%, 4/27 maturity	5/5/2015	9.9%	4,133,076	1,552,452
Catamaran CLO 2016-1 Ltd.(3)(6)(13)(18) Boundary Hall, Cricket Square PO Box 1093, Grand Cayman, Ky1-1102 Cayman Islands	Subordinated Securities, effective interest 4.9%, 1/29 maturity	12/21/2016	24.9%	9,013,064	4,033,692
Catamaran CLO 2018-1 Ltd(3)(6)(13)(18) Boundary Hall, Cricket Square PO Box 1093, Grand Cayman, Ky1-1102 Cayman Islands	Subordinated Securities, effective interest 11.7%, 10/31 maturity	9/27/2018	24.8%	9,358,631	6,831,000
Total Investment in CLO Fund Securities (15% of net asset value at fair value)				\$ 46,102,433	\$ 18,791,865

Asset Manager Affiliates

Portfolio Company / Principal Business	Investment ¹⁵	Initial Acquisition Date	Percentage Ownership	Cost	Fair Value
Asset Manager Affiliates(8)(9)(13)(16) 650 Madison Ave FL23, New York, NY 10022	Asset Management Company	12/11/2006	100%	\$ 17,791,230	\$ -
Total Investment in Asset Manager Affiliates (0% of net asset value at fair value)				\$ 17,791,230	\$ -

Derivatives

Portfolio Company / Principal Business	Investment ¹⁵	Initial Acquisition Date	Cost	Fair Value	
AAPC Holdings LLC.(13)(22)(23) 2222 Sedwick Drive Durham, NC 27713 Banking, Finance, Insurance & Real Estate	Securities Swap and Option Agreement	9/30/2019	\$ -	\$ (1,093,195)	
HDNet Holdco LLC (13)(22)(23) 8269 E. 23rd Ave Denver, CO 80238 Media: Broadcasting & Subscription	Call Option	9/9/2019	30,609	60,147	
Total Derivatives (0% of net asset value at fair value)				\$ 30,609	\$ (1,033,048)

Joint Ventures

Portfolio Company / Principal Business	Investment ¹⁵	Initial Acquisition Date	Percentage Ownership	Cost	Fair Value
KCAP Freedom 3 LLC(9)(13)(16) 650 Madison Ave FL23, New York, NY 10022	Joint Venture	7/19/2017	60%	\$ 24,914,858	\$ 17,175,011
BCP Great Lakes Holdings LP(10)(17)(18) Limited Partnership 650 Madison Ave FL23, New York, NY 10022	Joint Venture	12/11/2018	27%	30,077,688	29,656,600
Total Investment in Joint Ventures (37% of net asset value at fair value)				\$ 54,992,546	\$ 46,831,611

Short-term Investments

Short-term Investments	Investment ¹⁵	Initial Acquisition Date	Yield	Par /Amortized Cost	Fair Value ²
US Bank Money Market Account ⁷⁽⁸⁾	Money Market Account	N/A	0.45%	\$ 10,219,782	\$ 10,219,782
Total Short-term Investments (8% of net asset value at fair value)				\$ 10,219,782	\$ 10,219,782
Total Investments⁴				\$ 367,119,915	\$ 289,079,495

- 1 A majority of the variable rate loans in the Company's investment portfolio bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which typically resets semi-annually, quarterly, or monthly at the borrower's option. The Borrower may also elect to have multiple interest reset periods for each September 30, 2020 loan. For each such loan, the Company has provided the weighted average annual stated interest rate in effect at September 30, 2020. As noted in the table above, 76% (based on par) of debt securities contain floors which range between 1.00% and 2.00%.
- 2 Reflects the fair market value of all investments as of September 30, 2020 as determined by the Company's Board of Directors.
- 3 Non-U.S. company or principal place of business outside the U.S.
- 4 The aggregate cost of investments for federal income tax purposes is approximately \$373 million. The aggregate gross unrealized appreciation is approximately \$4.7 million, the aggregate gross unrealized depreciation is approximately \$88.8 million, and the net unrealized depreciation is approximately \$84.1 million.
- 5 Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- 6 A CLO Fund managed by an affiliate of LibreMax.
- 7 Money market account.
- 8 Qualified asset for purposes of section 55(a) of the Investment Company Act of 1940, as amended (the "1940 Act"). Qualifying assets represent approximately 77.3% of the total assets at September 30, 2020.
- 9 As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" and has "Control" of this portfolio company as the Company owns more than 25% of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company (including through a management agreement). Other than for purposes of the 1940 Act, the Company does not believe that it has control over this portfolio company.
- 10 Non-voting.
- 11 CLO Subordinated Investments are entitled to periodic distributions which are generally equal to the remaining cash flow of the payments made by the underlying fund's investments less contractual payments to debt holders and fund expenses. The estimated annualized effective yield indicated is based upon a current projection of the amount and timing of these distributions. Such projections are updated on a quarterly basis and the estimated effective yield is adjusted prospectively.
- 12 This investment is on non-accrual status and receives a 5% royalty interest on oil being produced on certain fields. All production payments received are being applied to the cost basis and are considered return of capital.
- 13 Fair value of this investment was determined using significant unobservable inputs.
- 14 As of September 30, 2020, this investment is owned by Great Lakes Portman Ridge Funding, LLC and was pledged to secure Great Lakes Portman Ridge Funding, LLC's debt obligation pursuant to its senior secured revolving credit facility (the "Revolving Credit Facility") with JPMorgan Chase Bank, National Association ("JPM").
- 15 The Company's investments are generally acquired in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") and, therefore, are generally subject to limitations on resale, and may be deemed to be "restricted securities" under the Securities Act of 1933.
- 16 As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" and has "Control" of this portfolio company as the Company owns more than 25% of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company.
- 17 Ownership of LP interest held through the holding company BCP Great Lakes Fund, L.P, a non-U.S. company or principal place of business outside the U.S.
- 18 Under the 1940 Act, the Company is deemed to be an "Affiliated Person" of, as defined in the 1940 Act, this portfolio company as the Company owns at least 5% but no more than 25% of the portfolio company's outstanding voting securities or is under common control with such portfolio company. Other than for purpose of the 1940 Act, the Company does not believe it has control over this portfolio company.
- 19 Non-income producing.
- 20 In addition to the stated interest rate of this security, which is the amount disclosed in this schedule, the Company is entitled to receive additional interest as a result of an arrangement with other lenders in the syndication, whereby the "first out" tranche will have priority over the Company's "last out" tranche with respect to payments of principal, interest and any other amounts due thereunder from the borrower.
- 21 This CLO Fund security made a distribution to the Company during the first quarter of 2020. During the second quarter of 2020, the Company was notified that this CLO Fund security will cease making distributions to the Company.
- 22 Represents co-investment made with the Company's affiliates in accordance with the terms of the exemptive relief that the Company received from the U.S Securities and Exchange Commission.
- 23 Information related to the Company's derivatives is presented below as of September 30, 2020:

Description	Payments made	Payments received	Counterparty	Maturity date	Notional amount	Value	Upfront payments/receipts	Unrealized gain (loss)
Securities Swap and Option Agreement	18% PIK	16% Cash	Advantage Capital Holdings LLC.	9/15/24	\$ 5,500,000	\$ (1,093,195)	\$ -	\$ (1,093,195)

Description	Counterparty	Number of shares	Notional amount	Exercise price	Expiration date	Value
Call option	HDNet Holdco LLC	0.2	\$ 7,656	\$ 0.01	N/A	\$ 60,147

See accompanying notes to consolidated financial statements.

PORTMAN RIDGE FINANCE CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
As of December 31, 2019

Debt Securities Portfolio

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
Advanced Lighting Technologies, Inc. Consumer goods: Durable	(5)(8)(13)	Junior Secured Loan — Second Lien Notes 9.0% Cash, 10.0% PIK, 3 month LIBOR(2.03%) + 7.00%; LIBOR Floor 1.00% , Due 10/23	6/13/2012	1,220,614	951,271	2,563
Akumin Corp. Healthcare & Pharmaceuticals	(8)(13)(14)	Senior Secured Loan — Initial Term B Loan 7.8% Cash, 1 month LIBOR(1.80%) + 6.00%; LIBOR Floor 1.00% , Due 5/24	5/31/2019	2,238,750	2,199,268	2,186,139
Anthem Sports & Entertainment Inc. Media: Broadcasting & Subscription	(8)(13)(14)	Senior Secured Loan — Term Loan 8.7% Cash, 2.8% PIK, 3 month LIBOR(1.94%) + 6.75%; LIBOR Floor 1.00% , Due 9/24	9/9/2019	4,317,019	4,162,593	4,147,792
Anthem Sports & Entertainment Inc. Media: Broadcasting & Subscription	(8)(13)	Senior Secured Loan — Revolving Loan 11.4% Cash, 3 month LIBOR(1.94%) + 9.50%; LIBOR Floor 1.00% , Due 9/24	9/9/2019	416,667	377,557	400,333
BMC Acquisition, Inc. (aka BenefitMall) Banking, Finance, Insurance & Real Estate	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 7.2% Cash, 6 month LIBOR(1.93%) + 5.25%; LIBOR Floor 1.00% , Due 12/24	1/2/2018	2,940,000	2,938,765	2,827,398
BW NHHH Holdco Inc. Healthcare & Pharmaceuticals	(8)(13)(14)	Senior Secured Loan — Initial Term Loan (First Lien) 6.9% Cash, 3 month LIBOR(1.91%) + 5.00%; , Due 5/25	5/16/2018	1,970,000	1,947,269	1,625,250
Carestream Health, Inc. Healthcare & Pharmaceuticals	(8)(13)(14)	Junior Secured Loan — Extended Term Loan (Second Lien) 11.3% Cash, 1 month LIBOR(1.80%) + 9.50%; LIBOR Floor 1.00% , Due 6/21	10/7/2014	1,510,955	1,502,210	1,480,736
Child Development Schools, Inc. Services: Consumer	(8)(13)(14)	Senior Secured Loan — Term Loan 6.2% Cash, 1 month LIBOR(1.93%) + 4.25%; LIBOR Floor 1.00% , Due 5/23	6/6/2018	4,520,198	4,512,488	4,493,529
Coinamatic Canada Inc. Consumer goods: Durable	(3)(14)	Junior Secured Loan — Initial Canadian Term Loan (Second Lien) 8.8% Cash, 1 month LIBOR(1.80%) + 7.00%; LIBOR Floor 1.00% , Due 5/23	12/18/2019	521,646	443,878	495,564
Community Care Health Network, Inc. (aka Matrix Medical Network) Healthcare & Pharmaceuticals	(8)(13)(14)	Senior Secured Loan — Closing Date Term Loan 6.5% Cash, 1 month LIBOR(1.80%) + 4.75%; , Due 2/25	2/9/2018	1,970,000	1,966,385	1,960,150
CSM Bakery Solutions Limited (fka CSM Bakery Supplies Limited) Beverage, Food and Tobacco	(8)(14)	Junior Secured Loan — Term Loan (Second Lien) 9.8% Cash, 3 month LIBOR(2.03%) + 7.75%; LIBOR Floor 1.00% , Due 7/21	5/23/2013	3,000,000	3,003,785	2,868,000
Dental Implant Holdings, LLC Healthcare & Pharmaceuticals	(8)(14)(20)	Senior Secured Loan — Term Loan (last out) 8.2% Cash, 1 month LIBOR(1.71%) + 6.50%; LIBOR Floor 1.00% , Due 1/23	12/18/2019	500,000	447,624	500,000

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.) High Tech Industries	(8)(13)	Senior Secured Loan — Incremental Tranche 2 Term Loan 11.3% Cash, 1 month LIBOR(1.80%) + 9.50%; , Due 7/24	12/10/2018	286,430	280,909	279,441
Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.) High Tech Industries	(8)(13)	Senior Secured Loan — Incremental Tranche A-1 TL 11.3% Cash, 1 month LIBOR(1.80%) + 9.50%; , Due 7/24	12/10/2018	146,079	143,339	142,515
Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.) High Tech Industries	(8)(13)	Senior Secured Loan — Incremental Tranche A-3 Term Loan 11.3% Cash, 1 month LIBOR(1.80%) + 9.50%; , Due 7/24	12/10/2018	47,738	46,803	46,574
Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.) High Tech Industries	(8)(13)	Senior Secured Loan — Incremental Tranche A-6 Term Loan 11.3% Cash, 1 month LIBOR(1.80%) + 9.50%; , Due 7/24	12/10/2018	305,427	299,362	297,974
Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.) High Tech Industries	(5)(8)(13)	Senior Secured Loan — Term Loan 11.5% Cash, 3 month LIBOR(1.95%) + 9.50%; LIBOR Floor 1.50%; , Due 7/24	12/10/2018	4,962,406	4,919,958	3,529,263
Drilling Info Holdings, Inc. High Tech Industries	(8)(13)(14)	Senior Secured Loan — 2019 Delayed Draw Term Loan (First Lien) 2.0% Cash, Due 7/25	6/27/2019	-	(2,551)	-
Drilling Info Holdings, Inc. High Tech Industries	(8)(13)(14)	Senior Secured Loan — Initial Term Loan (First Lien) 6.0% Cash, 1 month LIBOR(1.80%) + 4.25%; , Due 7/25	6/27/2019	279,942	279,942	279,242
Edelman Financial Center, LLC, The (fka Flight Debt Merger Sub Inc.) Banking, Finance, Insurance & Real Estate	(8)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 8.5% Cash, 1 month LIBOR(1.79%) + 6.75%; , Due 7/26	12/18/2019	300,000	267,692	299,250
Ensono, LP (formerly known as Acxiom IT Outsourcing, LP) Telecommunication	(8)(14)	Junior Secured Loan — Term Loan (Second Lien) 11.0% Cash, 1 month LIBOR(1.80%) + 9.25%; , Due 6/26	12/18/2019	1,700,000	1,499,936	1,677,050
Evergreen North America Acquisition, LLC (f/k/a Industrial Services Acquisition, LLC) Environmental Industries	(8)(13)(14)	Senior Secured Loan — Term Loan 6.8% Cash, 1 month LIBOR(1.81%) + 5.00%; LIBOR Floor 1.00%; , Due 6/22	6/21/2016	1,039,547	1,042,241	1,039,547
First American Payment Systems, L.P. Banking, Finance, Insurance & Real Estate	(8)(13)(14)	Junior Secured Loan — Tranche B Term Loan (Second Lien) 12.6% Cash, 3 month LIBOR(2.06%) + 10.50%; LIBOR Floor 1.00%; , Due 7/24	1/4/2017	1,500,000	1,472,888	1,468,500
Firstlight Holdco Inc. Telecommunication	(8)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 9.3% Cash, 1 month LIBOR(1.80%) + 7.50%; , Due 7/26	12/18/2019	400,000	355,145	397,000

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
GI Advo Opco, LLC Healthcare & Pharmaceuticals	(5)(8)	Senior Secured Loan — Term Loan 10.8% Cash, Prime (4.75%) + 6.00%; , Due 11/21	11/19/2015	180,304	179,431	-
GK Holdings, Inc. (aka Global Knowledge) Services: Business	(8)(13)	Junior Secured Loan — Initial Term Loan (Second Lien) 12.2% Cash, 3 month LIBOR(1.94%) + 10.25%; LIBOR Floor 1.00% , Due 1/22	1/30/2015	1,500,000	1,491,142	1,251,600
Global Tel*Link Corporation Telecommunication	(8)(14)	Junior Secured Loan — Loan (Second Lien) 10.0% Cash, 1 month LIBOR(1.80%) + 8.25%; , Due 11/26	5/21/2013	7,000,000	6,896,373	6,090,000
Grupo HIMA San Pablo, Inc. Healthcare & Pharmaceuticals	(8)(13)(14)	Senior Secured Loan — Term B Loan (First Lien) 10.9% Cash, 3 month LIBOR(1.94%) + 9.00%; LIBOR Floor 1.50% , Due 1/18	1/30/2013	2,702,232	2,702,232	2,648,188
Grupo HIMA San Pablo, Inc. Healthcare & Pharmaceuticals	(5)(8)(13)	Junior Secured Loan — Term Loan (Second Lien) 13.8% Cash, Due 7/18	1/30/2013	7,191,667	7,169,109	4,169,009
Hayward Industries, Inc. Consumer goods: Durable	(8)(14)	Junior Secured Loan — Initial Loan (Second Lien) 10.0% Cash, 1 month LIBOR(1.80%) + 8.25%; , Due 8/25	12/18/2019	2,159,333	1,835,957	2,058,492
Helix Acquisition Holdings, Inc. (aka MW Industries, Inc) Metals & Mining	(8)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 9.9% Cash, 3 month LIBOR(1.94%) + 8.00%; , Due 9/25	12/18/2019	1,400,000	1,180,977	1,319,500
Hoffmaster Group, Inc. Forest Products & Paper	(8)(13)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 11.3% Cash, 1 month LIBOR(1.80%) + 9.50%; LIBOR Floor 1.00% , Due 11/24	5/6/2014	1,600,000	1,570,609	1,534,240
Idera, Inc. High Tech Industries	(8)(13)(14)	Junior Secured Loan — Loan (Second Lien) 10.8% Cash, 1 month LIBOR(1.80%) + 9.00%; LIBOR Floor 1.00% , Due 6/27	6/27/2019	7,500,000	7,394,304	7,495,500
Infobase Holdings, Inc. High Tech Industries	(8)(13)(14)	Senior Secured Loan — Term Loan 6.4% Cash, 3 month LIBOR(1.94%) + 4.5%; LIBOR Floor 1.00% , Due 12/22	12/13/2017	3,914,383	3,888,371	3,886,590
Ivanti Software, Inc. (fka LANDesk Group, Inc.) High Tech Industries	(8)	Junior Secured Loan — Loan (Second Lien) 10.7% Cash, 1 month LIBOR(1.72%) + 9.00%; LIBOR Floor 1.00% , Due 1/25	3/10/2017	1,228,619	1,228,619	1,211,787
Kronos Foods Corp Beverage, Food and Tobacco	(8)(13)(14)	Senior Secured Loan — Fourth Amendment Term Loan 6.7% Cash, 3 month LIBOR(1.94%) + 4.75%; LIBOR Floor 1.00% , Due 9/22	6/27/2019	4,937,107	4,895,395	4,882,305
Location Services Holdings, LLC Services: Business	(8)(13)(14)	Senior Secured Loan — Revolving Credit 8.5% Cash, 1 month LIBOR(1.71%) + 6.75%; LIBOR Floor 1.00% , Due 5/20	11/7/2019	1,979,167	1,914,229	1,944,135

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Amortized		Fair Value ²
				Principal	Cost	
Ministry Brands, LLC (aka MB Holding) Electronics	(8)(13)(14)	Junior Secured Loan — April 2018 Incremental Term Loan (Second Lien) 9.8% Cash, 2 month LIBOR(1.83%) + 8.00%; LIBOR Floor 1.00% , Due 6/23	12/18/2019	6,000,000	5,370,528	6,000,000
Navex Topco, Inc. Electronics	(8)(14)(18)	Junior Secured Loan — Initial Term Loan (Second Lien) 8.8% Cash, 1 month LIBOR(1.80%) + 7.00%; , Due 9/26	12/4/2018	7,700,000	7,140,816	7,636,090
OCI Holdings, LLC Healthcare & Pharmaceuticals	(5)(8)(13) (18)	Subordinated Note — Float - 02/2020 15.8% Cash, 5.0% PIK, Due 2/20	12/18/2019	31,817,483	2,165,304	2,422,281
PAE Holding Corporation Aerospace and Defense	(8)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 11.3% Cash, 3 month LIBOR(1.85%) + 9.50%; LIBOR Floor 1.00% , Due 10/23	12/18/2019	6,888,196	6,088,533	6,802,094
PHI Group, Inc. Transportation: Cargo	(8)(13)(14)	Senior Secured Loan — Loan 8.8% Cash, 1 month LIBOR(1.80%) + 7.00%; LIBOR Floor 1.00% , Due 9/24	7/10/2019	8,375,422	8,216,303	8,300,043
Phoenix Guarantor Inc. (aka Brightspring) Healthcare & Pharmaceuticals	(8)(13)(14)	Junior Secured Loan — Term Loan Second Lien 10.2% Cash, 1 month LIBOR(1.74%) + 8.50%; LIBOR Floor 1.00% , Due 3/27	12/18/2019	1,200,000	1,084,045	1,212,000
Pinstripe Holdings, LLC (Aka Cielo) Services: Business	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 7.8% Cash, 1 month LIBOR(1.80%) + 6.00%; LIBOR Floor 1.00% , Due 1/25	1/17/2019	4,962,500	4,878,600	4,807,670
PSC Industrial Holdings Corp. Environmental Industries	(8)(13)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 10.2% Cash, 1 month LIBOR(1.74%) + 8.50%; LIBOR Floor 1.00% , Due 10/25	10/5/2017	3,000,000	2,956,575	2,885,400
PVHC Holding Corp Containers, Packaging and Glass	(8)(13)(14)	Senior Secured Loan — Delayed Draw Term Loan 4.8% Cash, Due 8/24	8/10/2018	-	(1,424)	-
PVHC Holding Corp Containers, Packaging and Glass	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 6.7% Cash, 3 month LIBOR(1.94%) + 4.75%; LIBOR Floor 1.00% , Due 8/24	8/10/2018	2,844,000	2,833,064	2,616,480
Radius Aerospace, Inc. Aerospace and Defense	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 7.7% Cash, 3 month LIBOR(1.96%) + 5.75%; LIBOR Floor 1.00% , Due 3/25	6/27/2019	6,947,500	6,852,431	6,852,319
Ravn Air Group, Inc. Aerospace and Defense	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 7.0% Cash, 3 month LIBOR(1.95%) + 5.00%; LIBOR Floor 1.00% , Due 7/21	7/29/2015	1,787,814	1,787,814	1,728,459
Robertshaw US Holding Corp. (fka Fox US Bidco Corp.) Capital Equipment	(8)(13)	Junior Secured Loan — Initial Term Loan (Second Lien) 9.8% Cash, 1 month LIBOR(1.81%) + 8.00%; LIBOR Floor 1.00% , Due 2/26	2/15/2018	3,000,000	2,976,852	2,753,100

Portfolio Company / Principal Business	Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
Roscoe Medical, Inc. Healthcare & Pharmaceuticals	(5) (8) Junior Secured Loan — Term Loan (Second Lien) (13) 13.3% Cash, Due 3/21	3/26/2014	5,000,000	4,990,760	2,957,000
Roscoe Medical, Inc. Healthcare & Pharmaceuticals	(5) (8) Junior Secured Loan — Term Loan (Second Lien) (13) 13.3% Cash, Due 3/21	3/26/2014	1,700,000	1,695,164	1,005,380
Safe Fleet Holdings LLC Automotive	Junior Secured Loan — Initial Term Loan (Second Lien) (8) 8.5% Cash, 1 month LIBOR(1.74%) + 6.75%; LIBOR Floor 1.00% , (14) Due 2/26	12/18/2019	700,000	609,102	680,750
Salient CRGT Inc. High Tech Industries	Senior Secured Loan — Initial Term Loan (8) 8.3% Cash, 1 month LIBOR(1.79%) + 6.50%; LIBOR Floor 1.00% , (14) Due 2/22	2/27/2017	334,873	337,069	312,269
SCSG EA Acquisition Company, Inc. Healthcare & Pharmaceuticals	(8) Junior Secured Loan — Initial Term Loan (Second Lien) (13) 10.0% Cash, 1 month LIBOR(1.75%) + 8.25%; LIBOR Floor 1.00% , (14) Due 9/24	8/18/2017	1,000,000	992,752	995,000
SCSG EA Acquisition Company, Inc. Healthcare & Pharmaceuticals	(8) Junior Secured Loan — Initial Term Loan (Second Lien) (13) 10.0% Cash, 1 month LIBOR(1.76%) + 8.25%; LIBOR Floor 1.00% , (14) Due 9/24	8/18/2017	5,000,000	4,966,615	4,975,000
Syndigo LLC Services: Business	(8) Senior Secured Loan — Incremental Term Loan (13) 7.3% Cash, 1 month LIBOR(1.84%) + 5.50%; LIBOR Floor 1.00% , (14) Due 10/24	8/23/2019	7,917,229	7,768,928	7,758,884
Tailwind Randys, LLC Automotive	Senior Secured Loan — Initial Term Loan (8) 7.4% Cash, 3 month LIBOR(1.94%) + 5.50%; LIBOR Floor 1.00% , (14) Due 5/25	6/27/2019	4,975,000	4,895,406	4,861,073
Tank Partners Equipment Holdings LLC Oil & Gas	(5) Energy: (8) Senior Unsecured Bond — 10.000% - 02/2022 - TankConvert (13) 0.0% Cash, 10.0% PIK, Due 2/22	2/15/2019	648,879	620,145	403,615
Teneo Holdings LLC Services: Business	(8) Senior Secured Loan — Initial Term Loan (First Lien) (13) 7.0% Cash, 1 month LIBOR(1.74%) + 5.25%; LIBOR Floor 1.00% , (14) Due 7/25	8/23/2019	4,987,500	4,800,254	4,758,075
Tex-Tech Industries, Inc. Textiles and Leather	(8) Junior Secured Loan — Term Loan (Second Lien) (13) 10.7% Cash, 1 month LIBOR(1.70%) + 9.00%; LIBOR Floor 1.00% , (14) Due 8/24	8/24/2017	12,508,000	12,389,673	12,180,290
TLE Holdings, LLC Healthcare, Education and Childcare	(8) Senior Secured Loan — Delayed Draw Term Loan (13) 7.7% Cash, 1 month LIBOR(2.20%) + 5.50%; LIBOR Floor 1.00% , (14) Due 6/24	6/27/2019	207,380	205,810	205,057

Portfolio Company / Principal Business		Investment Interest Rate ¹ / Maturity ¹⁵	Initial Acquisition Date	Principal	Amortized Cost	Fair Value ²
TLE Holdings, LLC Healthcare, Education and Childcare	(8)(13)(14)	Senior Secured Loan — Initial Term Loan 7.3% Cash, 1 month LIBOR(1.80%) + 5.50%; LIBOR Floor 1.00% , Due 6/24	6/27/2019	5,688,912	5,665,175	5,625,197
TronAir Parent Inc. Aerospace and Defense	(8)(13)(14)	Senior Secured Loan — Initial Term Loan (First Lien) 6.7% Cash, 3 month LIBOR(1.91%) + 4.75%; LIBOR Floor 1.00% , Due 9/23	9/30/2016	979,798	978,209	959,516
TRSO I, Inc. Energy: Oil & Gas	(8)(13)(14)	Junior Secured Loan — Term Loan (Second Lien) 14.0% Cash, Due 3/20	12/24/2012	1,000,000	999,968	1,000,000
Vectra Co. Chemicals, Plastics & Rubber	(8)(14)	Junior Secured Loan — Initial Loan (Second Lien) 9.0% Cash, 1 month LIBOR(1.80%) + 7.25%; , Due 3/26	12/18/2019	400,000	345,833	389,320
Vertafore, Inc. Services: Business	(8)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 9.0% Cash, 1 month LIBOR(1.80%) + 7.25%; , Due 7/26	12/18/2019	900,000	794,083	893,430
Wash MultiFamily Acquisition Inc. Personal, Food and Miscellaneous Services	(8)(14)	Junior Secured Loan — Initial US Term Loan (Second Lien) 8.8% Cash, 1 month LIBOR(1.80%) + 7.00%; LIBOR Floor 1.00% , Due 5/23	12/18/2019	2,978,354	2,534,318	2,829,436
WireCo WorldGroup Inc. Capital Equipment	(8)(13)(14)	Junior Secured Loan — Initial Term Loan (Second Lien) 10.8% Cash, 1 month LIBOR(1.80%) + 9.00%; LIBOR Floor 1.00% , Due 9/24	8/9/2016	3,000,000	2,973,265	2,869,200
Wonder Love, Inc. Media: Diversified & Production	(8)(13)(14)	Senior Secured Loan — Term Loan 6.9% Cash, 3 month LIBOR(1.90%) + 5.00%; LIBOR Floor 1.00% , Due 11/24	11/18/2019	2,943,750	2,886,325	2,887,230
Zest Acquisition Corp. Healthcare, Education and Childcare	(8)(13)(14) (18)	Junior Secured Loan — Initial Term Loan (Second Lien) 9.3% Cash, 1 month LIBOR(1.75%) + 7.50%; LIBOR Floor 1.00% , Due 3/26	3/8/2018	3,500,000	3,482,564	3,306,091
Total Investments in Debt Securities (123% of net asset value at fair value)				\$ 230,278,820	\$ 194,686,364	\$ 186,802,908

Equity Securities Portfolio

Portfolio Company / Principal Business	Investment ¹⁵	Initial Acquisition Date	Percentage Ownership/Shares	Cost	Fair Value ²
AAPC Holdings LLC.(8)(13)(22) Healthcare & Pharmaceuticals	Class A Preferred Units; 18% PIK; No maturity	6/27/2019	2.99%	5,500,000	5,500,000
Advanced Lighting Technologies, Inc.(8)(13)(19) Consumer goods: Durable	Warrant	6/13/2012	1.90%	-	1,000
Advanced Lighting Technologies, Inc.(8)(13)(19) Consumer goods: Durable	Membership Interests	6/13/2012	0.40%	182,000	1,000
Anthem Sports & Entertainment Inc. (8)(13) Media: Broadcasting & Subscription	Warrant Class A, 9/29 maturity	9/9/2019	0.50%	43,887	11,485
Anthem Sports & Entertainment Inc. (8)(13)(19) Media: Broadcasting & Subscription	Warrant Class B, 9/29 maturity	9/9/2019	0.50%	-	-
Anthem Sports & Entertainment Inc. (8)(13)(19) Media: Broadcasting & Subscription	Warrant Common Stock, 9/29 maturity	9/9/2019	0.50%	-	-
ATP Oil & Gas Corporation(8)(12)(19) Energy: Oil & Gas	Limited Term Royalty Interest	12/18/2019	5.00%	2,994,029	3,445,768
eInstruction Acquisition, LLC(8)(13)(19) Services: Business	Membership Units	7/2/2007	1.10%	1,079,617	1,000
FP WRCA Coinvestment Fund VII, Ltd.(3)(13)(19) Capital Equipment	Class A Shares	2/2/2007	0.21%	1,500,000	831,600
New Millennium Holdco, Inc. (Millennium Health, LLC)(8)(13)(19) Healthcare & Pharmaceuticals	Common	10/7/2014	0.20%	1,953,299	1,000
OCI Holdings, LLC(8)(19)(21) Healthcare & Pharmaceuticals	Class A Units	12/18/2019	20.8%	—	—
Roscoe Investors, LLC(8)(13)(19) Healthcare & Pharmaceuticals	Class A Units	3/26/2014	1.56%	1,000,000	—
Tank Partners Equipment Holdings, LLC(8)(13)(16)(19) Energy: Oil & Gas	Class A Units	8/28/2014	48.5%	6,228,000	—
Ohene Holdings B.V.(3)(13)(19) Services: Business	Warrants	3/31/2019	0.2%	—	1,000
TRSO II, Inc.(8)(13)(19) Energy: Oil & Gas	Common Stock	12/24/2012	5.40%	1,680,161	70,566
Total Investment in Equity Securities (6% of net asset value at fair value)				\$ 22,160,993	\$ 9,864,419

CLO Subordinated Investments

Portfolio Company	Investment ^{15,11}	Initial Acquisition Date	Percentage Ownership	Amortized Cost	Fair Value
Catamaran CLO 2013- 1 Ltd.(3)(6)(13)(18)	Subordinated Securities, effective interest 15.4%, 1/28 maturity	6/4/2013	23.3%	6,094,823	5,025,536
Catamaran CLO 2014-1 Ltd.(3)(6)(13)(18)	Subordinated Securities, effective interest 10.9%, 4/30 maturity	5/6/2014	22.2%	9,995,658	6,379,580
Dryden 30 Senior Loan Fund(3)(13)	Subordinated Securities, effective interest 29.9%, 11/28 maturity	10/10/2013	6.8%	1,519,641	1,984,155
Catamaran CLO 2014-2 Ltd.(3)(6)(13)(18)	Subordinated Securities, effective interest 7.8%, 10/26 maturity	8/15/2014	24.9%	6,072,697	1,139,032
Catamaran CLO 2015-1 Ltd.(3)(6)(13)(18)	Subordinated Securities, effective interest 8.4%, 4/27 maturity	5/5/2015	9.9%	4,088,504	2,514,130
Catamaran CLO 2016-1 Ltd.(3)(6)(13)(18)	Subordinated Securities, effective interest 8.0%, 1/29 maturity	12/21/2016	24.9%	9,253,304	6,395,016
Catamaran CLO 2018-1 Ltd(3)(6)(13)(18)	Subordinated Securities, effective interest 13.0%, 10/31 maturity	9/27/2018	24.8%	9,594,090	8,530,753
Total Investment in CLO Subordinated Securities				\$ 46,618,717	\$ 31,968,202

Asset Manager Affiliates

Portfolio Company / Principal Business	Investment ¹⁵	Initial Acquisition Date	Percentage Ownership	Cost	Fair Value ²
Asset Manager Affiliates ⁽⁸⁾⁽¹³⁾⁽¹⁶⁾	Asset Management Company	12/11/2006	100%	\$ 17,791,230	\$ -
Total Investment in Asset Manager Affiliates (2% of net asset value at fair value)				\$ 17,791,230	\$ -

Derivatives

Portfolio Company / Principal Business	Investment ¹⁵	Initial Acquisition Date	Percentage Ownership	Cost	Fair Value
AAPC Holdings LLC ⁽¹³⁾⁽²²⁾ Banking, Finance, Insurance & Real Estate	Securities Swap and Option Agreement	9/30/2019		\$ -	\$ (41,093)
HDNet Holdco LLC ⁽¹³⁾⁽²²⁾ Media: Broadcasting & Subscription	Call Option	9/9/2019		30,609	7,656
Total Derivatives (0% of net asset value at fair value)				\$ 30,609	\$ (33,437)

Joint Ventures

Portfolio Company / Principal Business	Investment ¹⁵	Initial Acquisition Date	Percentage Ownership	Cost	Fair Value
KCAP Freedom 3 LLC ⁽⁹⁾⁽¹³⁾⁽¹⁶⁾	Joint Venture	7/19/2017	60%	\$ 24,914,858	\$ 21,307,899
BCP Great Lakes Holdings LP ⁽¹⁰⁾⁽¹⁷⁾⁽¹⁸⁾ Limited Partnership	Joint Venture	12/11/2018	37.2%	23,679,681	23,780,068
Total Investment in Joint Ventures (29% of net asset value at fair value)				\$ 48,594,539	\$ 45,087,967

Short-term Investments

Short-term Investments	Investment ¹⁵	Initial Acquisition Date	Yield	Par /Amortized Cost	Fair Value ²
US Bank Money Market Account ⁽⁷⁾⁽⁸⁾	Money Market Account	N/A	0.45%	\$ 4,207,107	\$ 4,207,107
Total Short-term Investments (2% of net asset value at fair value)				\$ 4,207,107	\$ 4,207,107
Total Investments				\$ 334,089,559	\$ 277,897,166

- 1 A majority of the variable rate loans in the Company's investment portfolio bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which typically resets semi-annually, quarterly, or monthly at the borrower's option. The Borrower may also elect to have multiple interest reset periods for each December 31, 2019 loan. For each such loan, the Company has provided the weighted average annual stated interest rate in effect at December 31, 2019. As noted in the table above, 82% (based on par) of debt securities contain floors which range between 1.00% and 1.50%.
- 2 Reflects the fair market value of all investments as of December 31, 2019 as determined by the Company's Board of Directors.
- 3 Non-U.S. company or principal place of business outside the U.S.
- 4 The aggregate cost of investments for federal income tax purposes is approximately \$348 million. The aggregate gross unrealized appreciation is approximately \$27.2 million, the aggregate gross unrealized depreciation is approximately \$94.9 million, and the net unrealized depreciation is approximately \$67.9 million.
- 5 Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- 6 A CLO Fund managed by an affiliate of LibreMax.
- 7 Money market account.
- 8 Qualified asset for purposes of section 55(a) of the Investment Company Act of 1940, as amended (the "1940 Act"). Qualifying assets represent approximately 74.7% of the total assets at December 31, 2019.
- 9 As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" and has "Control" of this portfolio company as the Company owns more than 25% of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company (including through a management agreement). Other than for purposes of the 1940 Act, the Company does not believe that it has control over this portfolio company.
- 10 Non-voting.
- 11 CLO Subordinated Investments are entitled to periodic distributions which are generally equal to the remaining cash flow of the payments made by the underlying fund's investments less contractual payments to debt holders and fund expenses. The estimated annualized effective yield indicated is based upon a current projection of the amount and timing of these distributions. Such projections are updated on a quarterly basis and the estimated effective yield is adjusted prospectively.
- 12 This investment is on non-accrual status and receives a 5% royalty interest on oil being produced on certain fields. All production payments received are being applied to the cost basis and are considered return of capital.
- 13 Fair value of this investment was determined using significant unobservable inputs.

- 14 As of December 31, 2019, this investment is owned by Great Lakes Portman Ridge Funding, LLC and was pledged to secure Great Lakes Portman Ridge Funding, LLC's debt obligation pursuant to its senior secured revolving credit facility (the "Revolving Credit Facility") with JPMorgan Chase Bank, National Association ("JPM").
- 15 The Company's investments are generally acquired in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") and, therefore, are generally subject to limitations on resale, and may be deemed to be "restricted securities" under the Securities Act of 1933.
- 16 As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" and has "Control" of this portfolio company as the Company owns more than 25% of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company.
- 17 Ownership of LP interest held through the holding company BCP Great Lakes Fund, L.P, a non-U.S. company or principal place of business outside the U.S.
- 18 Under the 1940 Act, the Company is deemed to be an "Affiliated Person" of, as defined in the 1940 Act, this portfolio company as the Company owns at least 5% but no more than 25% of the portfolio company's outstanding voting securities or is under common control with such portfolio company. Other than for purpose of the 1940 Act, the Company does not believe it has control over this portfolio company.
- 19 Non-income producing.
- 20 Investment is entitled to skim interest which results in a higher interest rate spread of approximately 30 basis points.
- 21 Owns 100% of Class A Units in OHA/OCI Investments, LLC representing 20.8% diluted ownership of OCI Holdings, LLC
- 22 Information related to the Company's derivatives is presented below as of December 31, 2019:

Description	Payments made	Payments received	Counterparty	Maturity date	Notional amount	Value	Upfront payments/receipts	Unrealized gain (loss)
Securities Swap and Option Agreement	18% PIK	16% Cash	Advantage Capital Holdings LLC.	9/15/24	\$ 5,500,000	\$ (41,093)	\$ -	\$ (41,093)

Description	Counterparty	Number of shares	Notional amount	Exercise price	Expiration date	Value
Call option	HDNet Holdco LLC	0.2	\$ 7,656	\$ 0.01	N/A	\$ 7,656

See accompanying notes to consolidated financial statements.

PORTMAN RIDGE FINANCE CORPORATION
CONSOLIDATED FINANCIAL HIGHLIGHTS
(unaudited)

	For the Nine Months Ended September 30,	
	2020⁴	2019⁴
Per Share Data:		
Net asset value, at beginning of period	\$ 3.40	\$ 4.23
Net investment (loss) income ¹	0.18	0.02
Net realized (losses) from investments ¹	(0.09)	(0.45)
Realized (losses) gains from extinguishment of debt ¹	0.00	—
Net change in unrealized (depreciation) appreciation on investments ¹	(0.50)	(0.00)
Net (decrease) increase in net assets resulting from operations	(0.40)	(0.43)
Net decrease in net assets resulting from distributions	(0.18)	(0.26)
Net increase (decrease) in net assets relating to stock-based transactions	0.04	0.01
Net asset value, end of period	<u>\$ 2.85</u>	<u>\$ 3.55</u>
Total net asset value return ²	(10.9)%	(10.0)%
Ratio/Supplemental Data:		
Per share market value at beginning of period	\$ 2.12	\$ 3.46
Per share market value at end of period	\$ 1.33	\$ 2.25
Total market return ³	(28.8)%	(27.5)%
Shares outstanding at end of period	44,169,060	37,371,912
Net assets at end of period	\$ 125,946,098	\$ 132,723,012
Portfolio turnover rate ⁵	26.6%	38.0%
Asset coverage ratio	172%	204%
Ratio of net investment income to average net assets (annualized)	7.7%	0.9%
Ratio of total expenses to average net assets (annualized) ⁶	14.2%	17.3%
Ratio of interest expense to average net assets (annualized)	6.7%	5.6%
Ratio of non-interest expenses to average net assets (annualized) ⁶	7.5%	11.7%

¹ Based on weighted average number of common shares outstanding-basic for the period.

² Total net asset value return (not annualized) equals the change in the net asset value per share over the period plus distributions, divided by the beginning net asset value per share.

³ Total market return (not annualized) equals the change in market price, per share during the period plus distributions, divided by the beginning market price per share.

⁴ Totals may not sum due to rounding.

⁵ Portfolio turnover rate equals the year-to-date sales and paydowns over the average of the invested assets at fair value.

⁶ Incentive fees earned during the nine months ended September 30, 2020, were approximately \$1.1 million, \$557 thousand of which was waived pursuant to the Externalization Agreement. Excluding the waiver, the ratio of total expenses to average net assets (annualized) was 14.7% and the ratio of non-interest expenses to average net assets (annualized) was 8.0%.

See accompanying notes to consolidated financial statements.

PORTMAN RIDGE FINANCE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION

Portman Ridge Finance Corporation (“Portman Ridge” or the “Company”), formerly known as KCAP Financial, Inc., is an externally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Company was formed as a Delaware limited liability company on August 8, 2006 and, prior to the issuance of shares of the Company’s common stock in its initial public offering (“IPO”), converted to a corporation incorporated in Delaware on December 11, 2006.

The Company originates, structures, and invests in secured term loans, bonds or notes and mezzanine debt primarily in privately-held middle market companies but may also invest in other investments such as loans to publicly-traded companies, high-yield bonds, and distressed debt securities (collectively the “Debt Securities Portfolio”). The Company also invests in joint ventures and debt and subordinated securities issued by collateralized loan obligation funds (“CLO Fund Securities”). In addition, from time to time the Company may invest in the equity securities of privately held middle market companies and may also receive warrants or options to purchase common stock in connection with its debt investments.

The Company has elected to be treated and intends to continue to qualify as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). To qualify as a RIC, the Company must, among other things, meet certain source-of-income, asset diversification and annual distribution requirements. As a RIC, the Company generally will not have to pay corporate-level U.S. federal income taxes on any income that it distributes in a timely manner to its stockholders.

On March 29, 2018, the Company’s Board of Directors (the “Board”), including a “required majority” (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Small Business Credit Availability Act (“SBCA”). As a result, the Company’s asset coverage requirement for senior securities changed from 200% to 150%, effective as of March 29, 2019.

During the third quarter of 2017, the Company formed a joint venture with Freedom 3 Opportunities LLC (“Freedom 3 Opportunities”), an affiliate of Freedom 3 Capital LLC, to create KCAP Freedom 3 LLC (the “Joint Venture”). The Company and Freedom 3 Opportunities contributed approximately \$37 million and \$25 million, respectively, in assets to the Joint Venture, which in turn used the assets to capitalize a new fund (KCAP FC3 Senior Funding, L.L.C. or the “Fund”) managed by KCAP Management, LLC, one of the Company’s indirectly wholly-owned Asset Manager Affiliate (as defined below) subsidiaries. In addition, the Fund used cash on hand and borrowings under a credit facility to purchase approximately \$184 million of loans from the Company and the Company used the proceeds from such sale to redeem approximately \$147 million in debt issued by KCAP Senior Funding I, LLC (“KCAP Senior Funding”). The Joint Venture may originate loans from time to time and sell them to the Fund.

During the fourth quarter of 2017, the Fund was refinanced through the issuance of senior and subordinated notes. The Joint Venture purchased 100% of the subordinated notes issued by the Fund. In connection with the refinancing, the Company received a cash distribution of \$12.6 million, \$11.8 million of which was a return of capital.

LibreMax Transaction

On November 8, 2018, the Company entered into an agreement with LibreMax Intermediate Holdings, LP (“LibreMax”) under which Commodore Holdings, LLC (“Commodore”), a wholly-owned subsidiary of the Company, sold the Company’s wholly-owned asset manager subsidiaries Katonah Debt Advisors, LLC (“Katonah Debt Advisors”), Trimaran Advisors, L.L.C. (“Trimaran Advisors”), and Trimaran Advisors Management, L.L.C. (“Trimaran Advisors Management” and, together with Katonah Debt Advisors and Trimaran Advisors, the “Disposed Manager Affiliates”), for a cash purchase price of approximately \$37.9 million (the “LibreMax Transaction”). The LibreMax Transaction closed on December 31, 2018. As of September 30, 2020, the Company’s remaining wholly-owned asset management subsidiaries (the “Asset Manager Affiliates”) were comprised of Commodore, Katonah Management Holdings, LLC, Katonah X Management LLC, Katonah 2007-1 Management, LLC and KCAP Management, LLC. Prior to their sale in the LibreMax Transaction, the Disposed Manager Affiliates represented substantially all of the Company’s investment in the Asset Manager Affiliates.

The Externalization Agreement

On December 14, 2018, the Company entered into a stock purchase and transaction agreement (the “Externalization Agreement”) with BC Partners Advisors L.P. (“BCP”), an affiliate of BC Partners LLP, (“BC Partners”), through which Sierra Crest Investment Management LLC (the “Adviser”), an affiliate of BC Partners, became the Company’s investment adviser pursuant to an investment advisory Agreement (the “Advisory Agreement”) with the Company. At a special meeting of the Company’s stockholders (the “Special Meeting”) held on February 19, 2019, the Company’s stockholders approved the Advisory Agreement. The transactions contemplated by the Externalization Agreement closed on April 1, 2019 (the “Closing”), and the Company commenced operations as an externally managed BDC managed by the Adviser on that date.

Pursuant to the Externalization Agreement with BCP, the Adviser became the Company’s investment adviser in exchange for a cash payment from BCP, or its affiliate, of \$25 million, or \$0.669672 per share of the Company’s common stock, directly to the Company’s stockholders. In addition, the Adviser (or its affiliate) will use up to \$10 million of the incentive fee actually paid to the Adviser prior to the second anniversary of the Closing to buy newly issued shares of the Company’s common stock at the most recently determined net asset value per share of the Company’s common stock at the time of such purchase. For the period of one year from the first day of the first quarter following the quarter in which the Closing occurred, the Adviser will permanently forego up to the full amount of the incentive fees earned by the Adviser without recourse against or reimbursement by the Company, to the extent necessary in order to achieve aggregate net investment income per common share of the Company for such one-year period to be at least equal to \$0.40 per share, subject to certain adjustments.

On the date of the Closing, the Company changed its name from KCAP Financial, Inc. to Portman Ridge Finance Corporation and on April 2, 2019, began trading on the NASDAQ Global Select Market under the symbol “PTMN.”

On April 1, 2019, in connection with the Closing, all of the Company’s then-current directors resigned from their positions on the Board, with the exceptions of Dean Kehler and Christopher Lacovara. Prior to their resignations, the Board approved an increase in the size of the Board from seven members to eight members and appointed the following new individuals to serve on the Board: Graeme Dell; Alexander Duka; Ted Goldthorpe; George Grunebaum; David Moffitt; and Robert Warshauer. Additionally, in connection with the Closing all of the Company’s then-current officers resigned from their positions with the exceptions of Edward Gilpin and Daniel Gilligan. Effective as of the Closing, Ted Goldthorpe was appointed as President and Chief Executive Officer and Patrick Schafer was appointed as Chief Investment Officer of the Company. In May 2019, Mr. Gilligan resigned as Chief Compliance Officer and Andrew Devine was appointed Chief Compliance Officer.

About the Adviser

The Adviser is an affiliate of BC Partners. LibreMax owns a minority stake in the Adviser. Subject to the overall supervision of the Board, the Adviser is responsible for managing the Company’s business and activities, including sourcing investment opportunities, conducting research, performing diligence on potential investments, structuring the Company’s investments, and monitoring the Company’s portfolio companies on an ongoing basis through a team of investment professionals.

The Adviser seeks to invest on behalf of the Company in performing, well-established middle market businesses that operate across a wide range of industries (i.e., no concentration in any one industry). The Adviser employs fundamental credit analysis, targeting investments in businesses with relatively low levels of cyclicity and operating risk. The holding size of each position will generally be dependent upon a number of factors including total facility size, pricing and structure, and the number of other lenders in the facility. The Adviser has experience managing levered vehicles, both public and private, and seeks to enhance the Company’s returns through the use of leverage with a prudent approach that prioritizes capital preservation. The Adviser believes this strategy and approach offers attractive risk/return with lower volatility given the potential for fewer defaults and greater resilience through market cycles.

OHAI Transaction

On December 18, 2019, the Company completed its acquisition of OHA Investment Corporation (“OHAI”). In accordance with the terms of the merger agreement, each share of common stock, par value \$0.001 per share, of OHAI (the “OHAI Common Stock”)

issued and outstanding was converted into the right to receive (i) an amount in cash, without interest, equal to approximately \$0.42, and (ii) 0.3688 shares of common stock, par value \$0.01 per share, of the Company (plus any applicable cash in lieu of fractional shares). Each share of OHAI Common Stock issued and outstanding received, as additional consideration funded by the Adviser, an amount in cash, without interest, equal to approximately \$0.15.

Pursuant to the merger agreement, if at any time within one year after the closing date of the transaction the Company's common stock is trading at a price below 75% of its net asset value, we will initiate an open-market stock repurchase program of up to \$10 million to support the trading price of the combined entity for up to one year from the date such program is announced. The Board approved a stock repurchase program in March 2020 (see Note 10).

GARS Transaction

On June 24, 2020, the Company entered into an Agreement and Plan of Merger (the "GARS Merger Agreement") with Garrison Capital Inc., a publicly traded BDC ("GARS"), the Adviser and a wholly-owned merger subsidiary of the Company (such transaction, the "GARS Acquisition"). The transaction closed on October 28, 2020.

Under the terms of the GARS Merger Agreement, each share of common stock, par value \$0.001 per share, of GARS (the "GARS Common Stock") issued and outstanding was converted into the right to receive (i) an amount in cash, without interest, equal to approximately \$1.19 and (ii) approximately 1.917 shares of common stock, par value \$0.01 per share, of the Company (plus any applicable cash in lieu of fractional shares). Each share of GARS Common Stock issued and outstanding received, as additional consideration funded by the Adviser, an amount in cash, without interest, equal to approximately \$0.31.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required for annual consolidated financial statements. The unaudited interim consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto in the Company's Form 10-K for the year ended December 31, 2019, as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC").

The consolidated financial statements reflect all adjustments, both normal and recurring which, in the opinion of management, are necessary for the fair presentation of the Company's results of operations and financial condition for the periods presented. Furthermore, the preparation of the consolidated financial statements requires the Company to make significant estimates and assumptions including with respect to the fair value of investments that do not have a readily available market value. Actual results could differ from those estimates, and the differences could be material. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for the full year. Certain prior period amounts have been reclassified to conform to the current year presentation.

The Company consolidates the financial statements of its wholly-owned special purpose financing subsidiaries Great Lakes KCAP Funding I LLC, Kohlberg Capital Funding I LLC, KCAP Senior Funding I, LLC, KCAP Funding I Holdings, LLC and Great Lakes Portman Ridge Funding, LLC in its consolidated financial statements as they are operated solely for investment activities of the Company. The creditors of Great Lakes KCAP Senior Funding I, LLC and Great Lakes Portman Ridge Funding, LLC received security interests in the assets which are owned by them and such assets are not intended to be available to the creditors of Portman Ridge Finance Corporation, or any other affiliate. All of the borrowings of Kohlberg Capital Funding LLC I, KCAP Senior Funding I, LLC and Great Lakes KCAP Funding I, LLC have been fully repaid.

In accordance with Article 6 of Regulation S-X under the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company does not consolidate portfolio company investments, including those in which it has a controlling interest (e.g., the Asset Manager Affiliates), unless the portfolio company qualifies for consolidation.

The Asset Manager Affiliates previously qualified as a "significant subsidiary" and, as a result, the Company is required to include additional financial information regarding the Asset Manager Affiliates in its filings with the SEC. This additional financial information regarding the Asset Manager Affiliates does not directly impact the financial position or results of operations of the Company. Summarized financial information regarding the Asset Manager Affiliates is set forth in Note 5 to these financial statements.

The determination of the tax character of distributions is made on an annual (full calendar-year) basis at the end of the year based upon our taxable income for the full year and the distributions paid during the full year. Therefore, an estimate of tax attributes made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year.

It is the Company's primary investment objective to generate current income and capital appreciation by lending directly to privately-held middle market companies. During the quarter ended September 30, 2020, the Company provided approximately \$107.1 million to portfolio companies. Approximately \$26.5 million of this support was contractually obligated. See also Note 9 – Commitments and Contingencies. As of September 30, 2020, the Company held loans it has made to 65 investee companies with aggregate principal amounts of approximately \$226.2 million. The details of such loans have been disclosed on the unaudited consolidated schedule of investments as well as in Note 4 – Investments. In addition to providing loans to investee companies, from time to time the Company assists investee companies in securing financing from other sources by introducing such investee companies to sponsors or by, among other things, leading a syndicate of lenders to provide the investee companies with financing. During the nine months ended September 30, 2020, the Company did not recognize any fee income from such or similar activities.

Recently adopted accounting pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update, ASU 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08") which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. ASU 2017-08 does not require any accounting change for debt securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU 2017-08 did not have a material impact on the financial position or results of operations of the Company.

In February 2016, the FASB issued ASU 2016-02, Leases, and several amendments (collectively, "ASU 2016-02"), which requires lessees to recognize assets and liabilities arising from most operating leases on the consolidated statements of financial condition. For operating leases, a lessee is required to do the following: (a) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial condition; (b) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis and (c) classify all cash payments within operating activities in the statement of cash flows. The guidance is effective for fiscal periods beginning after December 15, 2018. Effective January 1, 2019 the Company recorded a right of use asset (net of previously deferred rent expense) of approximately \$3.3 million and a lease liability of approximately \$3.7 million upon adoption of this standard.

During the second quarter of 2019, the Company recognized an impairment of approximately \$1.4 million to reduce the right of use asset related to the Company's legacy office lease to its estimated fair market value. The impairment charge which was recognized in the Company's consolidated statement of operations during the second quarter of 2019. The lease was terminated during the fourth quarter of 2019.

In August 2018, the FASB issued Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). The standard would modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. The adoption of ASU 2018-13 did not result in a material change in the Company's fair value disclosures.

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update 2020-04, Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"). The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions, subject to meeting certain criteria, that reference London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. The Company expects that the adoption of this guidance will not have a material impact on the Company's financial position, results of operations or cash flows.

Investments

Investment transactions are recorded on the applicable trade date. Realized gains or losses are determined using the specific identification method.

Valuation of Portfolio Investments. The Board is ultimately and solely responsible for making a good faith determination of the fair value of portfolio investments on a quarterly basis. Debt and equity securities for which market quotations are readily available are generally valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued by the Board based on detailed analyses prepared by management and, in certain circumstances, third parties with valuation expertise. Valuations are conducted by management on 100% of the investment portfolio at the end of each quarter. The Company follows the provisions of ASC 820: Fair Value Measurements and Disclosures ("ASC 820: Fair Value"). This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities

measured at fair value. ASC 820: Fair Value defines “fair value” as 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.

The Company utilizes an independent valuation firm to provide third party valuation consulting services. Each quarter the independent valuation firm will perform third party valuations of the Company’s investments in material illiquid securities such that they are reviewed at least once during a trailing 12-month period. These third party valuation estimates are considered as one of the relevant data points in the Company’s determination of fair value. The Company intends to continue to engage an independent valuation firm in the future to provide certain valuation services, including the review of certain portfolio assets, as part of the quarterly and annual year-end valuation process.

The Board may consider other methods of valuation than those set forth below to determine the fair value of Level III investments as appropriate in conformity with GAAP. 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 the Company’s investments may differ materially from the values that would have been used had a readily available market existed for such investments. Further, such investments may be generally subject to legal and other restrictions on resale or otherwise be less liquid than publicly traded securities. In addition, changes in the market environment and other events may occur over the life of the investments that may cause the value realized on such investments to be different from the currently assigned valuations.

The majority of the Company’s investment portfolio is composed of debt and equity securities with unique contract terms and conditions and/or complexity that requires a valuation of each individual investment that considers multiple levels of market and asset specific inputs, which may include historical and forecasted financial and operational performance of the individual investment, projected cash flows, market multiples, comparable market transactions, the priority of the security compared with those of other securities for such issuers, credit risk, interest rates, and independent valuations and reviews.

Foreign Currency Translations. The accounting records of the Company are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the foreign exchange rate on the date of valuation. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. The Company’s investments in foreign securities may involve certain risks, including without limitation: foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments and therefore the earnings of the Company.

Debt Securities. To the extent that the Company’s investments are exchange traded and are priced or have sufficient price indications from normal course trading at or around the valuation date (financial reporting date), such pricing will be used to determine the fair value of the investments. Valuations from third party pricing services may be used as an indication of fair value, depending on the volume and reliability of the valuation, sufficient and reasonable correlation of bid and ask quotes, and, most importantly, the level of actual trading activity. However, if the Company has been unable to identify directly comparable market indices or other market guidance that correlate directly to the types of investments the Company owns, the Company will determine fair value using alternative methodologies such as available market data, as adjusted, to reflect the types of assets the Company owns, their structure, qualitative and credit attributes and other asset-specific characteristics.

The Company derives fair value for its illiquid investments that do not have indicative fair values based upon active trades primarily by using a present value technique that discounts the estimated contractual cash flows for the subject assets with discount rates imputed by broad market indices, bond spreads and yields for comparable issuers relative to the subject assets (the “Income Approach”). The Company also considers, among other things, recent loan amendments or other activity specific to the subject asset. Discount rates applied to estimated contractual cash flows for an underlying asset vary by specific investment, industry, priority and nature of the debt security (such as the seniority or security interest of the debt security) and are assessed relative to leveraged loan and high-yield bond indices, at the valuation date. The Company has identified these indices as benchmarks for broad market information related to its loan and debt securities. Because the Company has not identified any market index that directly correlates to the loan and debt securities held by the Company and therefore uses these benchmark indices, these market indices may require significant adjustment to better correlate such market data for the calculation of fair value of the investment under the Income Approach. Such adjustments require judgment and may be material to the calculation of fair value. Further adjustments to the discount rate may be applied to reflect other market conditions or the perceived credit risk of the borrower. When broad market indices are used as part of the valuation methodology, their use is subject to adjustment for many factors, including priority, collateral used as security, structure, performance and other quantitative and qualitative attributes of the asset being valued. The resulting present value determination is then weighted along with any quotes from observable transactions and broker/pricing quotes. If such quotes are indicative of actual transactions with reasonable trading volume at or near the valuation date that are not liquidation or distressed sales, relatively more reliance will be put on such quotes to determine fair value. If such quotes are not indicative of market transactions or are insufficient as to volume, reliability, consistency or other relevant factors, such quotes will be compared with other fair value indications and given relatively less weight based on their relevancy. Other significant assumptions, such as coupon and maturity, are asset-specific and are noted for each investment in the Consolidated Schedules of Investments included herein.

Equity Securities. The Company’s equity securities in portfolio companies for which there is no liquid public market are carried at fair value based on the enterprise value of the portfolio company, which is determined using various factors, including EBITDA (earnings before interest, taxes, depreciation and amortization) and discounted cash flows from operations, less capital expenditures

and other pertinent factors, such as recent offers to purchase a portfolio company's securities or other liquidation events. The determined fair values are generally discounted to account for restrictions on resale and minority ownership positions. In the event market quotations are readily available for the Company's equity securities in public companies, those investments may be valued using the Market Approach (as defined below). In cases where the Company receives warrants to purchase equity securities, a market standard Black-Scholes model is utilized.

The significant inputs used to determine the fair value of equity securities include prices, EBITDA and cash flows after capital expenditures for similar peer comparables and the investment entity itself. Equity securities are classified as Level III, when there is limited activity or less transparency around inputs to the valuation given the lack of information related to such equity investments held in nonpublic companies. Significant assumptions observed for comparable companies are applied to relevant financial data for the specific investment. Such assumptions, such as model discount rates or price/earnings multiples, vary by the specific investment, equity position and industry and incorporate adjustments for risk premiums, liquidity and company specific attributes. Such adjustments require judgment and may be material to the calculation of fair value.

Derivatives. The Company recognizes all derivative instruments as assets or liabilities at fair value in its financial statements. Derivative contracts entered into by the Company are not designated as hedging instruments, and as a result the Company presents changes in fair value and realized gains or losses through current period earnings. Derivative instruments are measured in terms of the notional contract amount and derive their value based upon one or more underlying instruments. Derivative instruments are subject to various risks similar to non-derivative instruments including market, credit, liquidity, and operational risks. The Company manages these risks on an aggregate basis as part of its risk management process. The derivatives may require the Company to pay or receive an upfront fee or premium. These upfront fees or premiums are carried forward as cost or proceeds to the derivatives. The Company generally records a realized gain or loss on the expiration, termination, or settlement of a derivative contract. The periodic payments for the securities Swap and Option Agreement (excluding collateral) are included as a realized gain or loss.

The Company values derivative contracts using various pricing models that take into account the terms of the contract (including notional amount and contract maturity) and observable and unobservable inputs such as interest rates and changes in fair value of the reference asset.

Asset Manager Affiliates. The Company sold substantially all of its investment in the Asset Manager Affiliates on December 31, 2018. Previously, the Company's investments in its wholly-owned Asset Manager Affiliates, were carried at fair value, which was primarily determined utilizing the discounted cash flow approach, which incorporated different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance. Such valuation took into consideration an analysis of comparable asset management companies and the amount of assets under management. The Asset Manager Affiliates were classified as a Level III investment. Any change in value from period to period was recognized as net change in unrealized appreciation or depreciation.

CLO Fund Securities. The Company typically makes a minority investment in the most junior class of securities of CLO Funds. The investments held by CLO Funds generally relate to non-investment grade credit instruments issued by corporations.

The Company's investments in CLO Fund Securities are carried at fair value, which is based either on (i) the present value of the net expected cash inflows for interest income and principal repayments from underlying assets and cash outflows for interest expense, debt pay-down and other fund costs for the CLO Funds that are approaching or past the end of their reinvestment period and therefore are selling assets and/or using principal repayments to pay down CLO Fund debt (or will begin to do so shortly), and for which there continue to be net cash distributions to the class of securities owned by the Company, a Discounted Cash Flow approach, (ii) a discounted cash flow model that utilizes prepayment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar securities or preferred shares to those in which the Company has invested, or (iii) indicative prices provided by the underwriters or brokers who arrange CLO Funds, a Market Approach. The Company recognizes unrealized appreciation or depreciation on the Company's investments in CLO Fund Securities as comparable yields in the market change and/or based on changes in net asset values or estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund Securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool are updated and the revised cash flows are used in determining the fair value of the CLO Fund investment. The Company determines the fair value of its investments in CLO Fund Securities on a security-by-security basis.

Due to the individual attributes of each CLO Fund Security, they are classified as a Level III investment unless specific trading activity can be identified at or near the valuation date. When available, observable market information will be identified, evaluated and weighted accordingly in the application of such data to the present value models and fair value determination. Significant assumptions to the present value calculations include default rates, recovery rates, prepayment rates, investment/reinvestment rates and spreads and the discount rate by which to value the resulting underlying cash flows. Such assumptions can vary significantly, depending on market data sources which often vary in depth and level of analysis, understanding of the CLO market, detailed or broad characterization of the CLO market and the application of such data to an appropriate framework for analysis. The application of data points are based on the specific attributes of each individual CLO Fund Security's underlying assets, historic, current and prospective performance, vintage, and other quantitative and qualitative factors that would be evaluated by market participants. The Company evaluates the source of market data for reliability as an indicative market input, consistency amongst other inputs and results and also the context in which such data is presented.

For rated note tranches of CLO Fund Securities (those above the junior class) without transactions to support a fair value for the specific CLO Fund and tranche, fair value is based on discounting estimated bond payments at current market yields, which may reflect the adjusted yield on the leveraged loan index for similarly rated tranches, as well as prices for similar tranches for other CLO Funds and also other factors such as indicative prices provided by underwriters or brokers who arrange CLO Funds, and the default and recovery rates of underlying assets in the CLO Fund, as may be applicable. Such model assumptions may vary and incorporate adjustments for risk premiums and CLO Fund specific attributes.

Short-term investments. Short-term investments are generally comprised of money market accounts, time deposits, and U.S. treasury bills.

Joint Ventures. The Company carries investments in joint ventures (“Joint Ventures”) at fair value based upon the fair value of the investments held by the joint venture. See Note 4 below, for more information regarding the Joint Ventures.

Cash. The Company defines cash as demand deposits. The Company places its cash with financial institutions, and, at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Restricted Cash. Restricted cash and cash equivalents (e.g., money market funds) generally consists of cash held for interest and principal payments on the Company’s borrowings.

Interest Income. Interest income, including the amortization of premium and accretion of discount and accrual of payment-in-kind (“PIK”) interest, is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company generally places a loan or security on non-accrual status and ceases recognizing interest income on such loan or security when a loan or security becomes 90 days or more past due or if the Company otherwise does not expect the debtor to be able to service its debt obligations. Loan origination fees, original issue discount (“OID”), and market discounts are capitalized and accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan, prepayment premiums, any unamortized loan origination fees, OID, or market discounts are recorded as interest income.

For investments with PIK interest, which represents contractual interest accrued and added to the principal balance that generally becomes due at maturity, we will not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible (i.e. via a partial or full non-accrual). Loans which are on partial or full non-accrual remain in such status until the borrower has demonstrated the ability and intent to pay contractual amounts due or such loans become current. As of September 30, 2020, eight of our debt investments were on non-accrual status.

Distributions from Asset Manager Affiliates. The Company records distributions from the Asset Manager Affiliates on the declaration date, which represents the ex-dividend date. Distributions in excess of tax-basis earnings and profits of the distributing affiliate company are recognized as tax-basis return of capital. For interim periods, the Company estimates the tax attributes of any distributions as being either from tax-basis earnings and profits (i.e., dividend income) or return of capital (i.e., adjustment to the Company’s cost basis in the Asset Manager Affiliates). The final determination of the tax attributes of distributions from the Asset Manager Affiliates is made on an annual (full calendar year) basis at the end of the year based upon taxable income and distributions for the full-year. Therefore, any estimate of tax attributes of distributions made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year.

Investment Income on CLO Fund Securities. The Company generates investment income from its investments in the most junior class of securities issued by CLO Funds (typically preferred shares or subordinated securities). The Company’s CLO Fund junior class securities are subordinated to senior note holders who typically receive a stated interest rate of return based on a floating rate index, such as the London Interbank Offered Rate (“LIBOR”) on their investment. The CLO Funds are leveraged funds and any excess cash flow or “excess spread” (interest earned by the underlying securities in the fund less payments made to senior note holders and less fund expenses and management fees) is paid to the holders of the CLO Fund’s subordinated securities or preferred shares.

GAAP-basis investment income on CLO equity investments is recorded using the effective interest method in accordance with the provisions of ASC 325-40, 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 projected future 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 prospectively over the remaining life of the investment from the date the estimated yield was changed. Accordingly, investment income recognized on CLO equity securities in the GAAP statement of operations differs from both the tax-basis investment income and from the cash distributions actually received by the Company during the period.

For non-junior class CLO Fund Securities, interest is earned at a fixed spread relative to the LIBOR index.

Investment income on Joint Ventures. The Company recognizes investment income on its investment in the Joint Ventures based upon its share of the estimated earnings and profits of the Joint Venture on the ex-dividend or ex-distribution date. The final determination of the tax attributes of distributions from the Joint Ventures is made on an annual (full calendar year) basis at the end of the year based upon taxable income and distributions for the full year. Therefore, any estimate of tax attributes of distributions made on an interim basis may not be representative of the actual tax attributes of distributions for the full year.

Capital Structuring Service Fees. The Company may earn ancillary structuring and other fees related to the origination, investment, disposition or liquidation of debt and investment securities. Generally, the Company will capitalize loan origination fees,

then amortize these fees into interest income over the term of the loan using the effective interest rate method, recognize prepayment and liquidation fees upon receipt and equity structuring fees as earned, which generally occurs when an investment transaction closes.

Debt Issuance Costs. Debt issuance costs represent fees and other direct costs incurred in connection with the Company's borrowings. These amounts are capitalized, presented as a reduction of debt, and amortized using the effective interest method over the expected term of the borrowing.

Extinguishment of debt. The Company must derecognize a liability if and only if it has been extinguished through delivery of cash, delivery of other financial assets, delivery of goods or services, or reacquisition by the Company of its outstanding debt securities whether the securities are cancelled or held. If the debt contains a cash conversion option, the Company must allocate the consideration transferred and transaction costs incurred to the extinguishment of the liability component and the reacquisition of the equity component and recognize a gain or loss in the statement of operations.

Expenses. Prior to April 1, 2019, the Company was internally managed and expensed costs, as incurred, with regard to the running of its operations. Primary operating expenses included employee salaries and benefits, the costs of identifying, evaluating, negotiating, closing, monitoring and servicing the Company's investments and related overhead charges and expenses, including rental expense, and any interest expense incurred in connection with borrowings. Since April 1, 2019, the Company has been externally managed and in connection with the Advisory Agreement, pays the Adviser certain investment advisory fees and reimburses the Adviser and Administrator for certain expenses incurred in connection with the services they provide. See Note 6 "Related Party Transactions - Payment of Expenses under the Advisory and Administration Agreements." Through December 31, 2018, the Company and the Asset Manager Affiliates shared office space and certain other operating expenses. The Company entered into an overhead allocation agreement with the Asset Manager Affiliates ("Overhead Allocation Agreement") which provided for the sharing of such expenses based on an allocation of office lease costs and the ratable usage of other shared resources. Until its termination in the fourth quarter of 2019, the Company continued to bear the costs associated with the office lease entered into by the Company prior to the Closing.

Shareholder Distributions. Distributions to common stockholders are recorded on the ex-dividend date. The amount of distributions, if any, is determined by the Board each quarter. The Company has adopted a dividend reinvestment plan (the DRIP) that provides for reinvestment of its distributions on behalf of its stockholders, unless a stockholder "opts out" of the DRIP to receive cash in lieu of having their cash distributions automatically reinvested in additional shares of the Company's common stock.

3. EARNINGS (LOSSES) PER SHARE

In accordance with the provisions of ASC 260, "Earnings per Share" ("ASC 260"), basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis.

The following information sets forth the computation of basic and diluted net increase (decrease) in stockholders' equity per share for the three and nine months ended September 30, 2020 and 2019:

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2020	2019	2020	2019
Net increase (decrease) increase in net assets available to common stockholders	\$ 8,318,673	\$ (4,250,782)	\$ (17,450,561)	\$ (16,016,674)
Weighted average number of common and common stock equivalent shares outstanding for diluted shares computation	44,417,783	37,361,746	44,616,502	37,348,835
Net (decrease) increase in net assets per basic common shares:				
Net (decrease) increase in net assets from operations	\$ 0.19	\$ (0.11)	\$ (0.39)	\$ (0.43)
Net (decrease) increase in net assets per diluted shares:				
Net (decrease) increase in net assets from operations	\$ 0.19	\$ (0.11)	\$ (0.39)	\$ (0.43)

Share-based awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and included in the computation of both basic and diluted earnings per share. Grants of restricted stock awards to the Company's employees and directors are considered participating securities when there are earnings in the period and the earnings per share calculations include outstanding unvested restricted stock awards in the basic weighted average shares outstanding calculation.

There were no options to purchase shares of common stock considered for the computation of the diluted per share information for the three and nine months ended September 30, 2020 and 2019. Since the effects are anti-dilutive for both periods, the options were not included in the computation. These stock options were cancelled in connection with the Externalization.

4. INVESTMENTS

The following table shows the Company's portfolio by security type at September 30, 2020 and December 31, 2019:

Security Type	September 30, 2020 (Unaudited)			December 31, 2019		
	Cost/Amortized		% ¹	Cost/Amortized		% ¹
	Cost	Fair Value		Cost	Fair Value	
Short-term investments ²	\$ 10,219,782	\$ 10,219,782	4	\$ 4,207,107	\$ 4,207,107	2
Senior Secured Loan	125,335,848	124,413,259	43	91,245,574	88,788,639	32
Junior Secured Loan	90,438,997	79,851,015	28	100,655,341	95,188,373	34
Senior Unsecured Bond	620,145	301,984	0	620,145	403,615	—
Subordinated Note	—	—	—	2,165,304	2,422,281	1
CLO Fund Securities	46,102,433	18,791,865	7	46,618,717	31,968,202	12
Equity Securities	21,588,325	9,703,027	3	22,160,993	9,864,419	4
Asset Manager Affiliates ³	17,791,230	—	—	17,791,230	—	—
Joint Ventures	54,992,546	46,831,611	16	48,594,539	45,087,967	16
Derivatives	30,609	(1,033,048)	(0)	30,609	(33,437)	—
Total	\$ 367,119,915	\$ 289,079,495	100%	\$ 334,089,559	\$ 277,897,166	100%

1 Represents percentage of total portfolio at fair value.

2 Includes money market accounts and U.S. treasury bills.

3 Represents the equity investment in the Asset Manager Affiliates.

The industry concentrations based on the fair value of the Company's investment portfolio as of September 30, 2020 and December 31, 2019 were as follows:

Industry Classification	September 30, 2020 (Unaudited)			December 31, 2019		
	Cost/Amortized		%	Cost/Amortized		%
	Cost	Fair Value		Cost	Fair Value	
Aerospace and Defense	\$ 11,086,558	\$ 10,968,006	4	\$ 15,706,988	\$ 16,342,388	6
Asset Management Company ²	17,791,230	-	-	17,791,230	-	—
Automotive	5,489,838	5,365,075	2	5,504,508	5,541,823	2
Banking, Finance, Insurance & Real Estate	6,544,615	5,373,704	2	4,679,345	4,554,055	2
Beverage, Food and Tobacco	4,332,793	3,813,344	1	7,899,181	7,750,305	3
Capital Equipment	10,275,176	7,470,650	3	7,450,117	6,453,900	2
Chemicals, Plastics & Rubber	3,247,453	3,312,838	1	345,833	389,320	-
CLO Fund Securities	46,102,433	18,791,865	7	46,618,717	31,968,202	12
Consumer goods: Durable	6,107,095	5,061,758	2	3,413,107	2,558,619	1
Containers, Packaging and Glass	2,813,322	2,511,372	1	2,831,640	2,616,480	1
Electronics	12,741,666	13,122,150	5	12,511,345	13,636,090	5
Energy: Oil & Gas	10,735,186	3,337,511	1	12,522,303	4,919,950	2
Environmental Industries	3,954,140	3,601,839	1	3,998,816	3,924,947	1
Forest Products & Paper	1,575,119	1,244,480	0	1,570,609	1,534,240	1
Healthcare, Education and Childcare	13,919,257	13,068,713	5	9,353,548	9,136,345	3
Healthcare & Pharmaceuticals	51,378,854	44,449,977	15	42,461,467	33,637,136	12
High Tech Industries	17,211,273	16,404,753	6	18,816,125	17,481,155	6
Joint Ventures	54,992,546	46,831,611	16	48,594,539	45,087,967	16
Media: Broadcasting & Subscription	4,166,658	4,202,371	1	4,614,647	4,567,266	2
Media: Diversified & Production	2,729,186	2,584,357	1	2,886,325	2,887,230	1
Metals & Mining	1,209,583	1,205,169	0	1,180,977	1,319,500	0
Personal, Food and Miscellaneous Services	-	-	-	2,534,318	2,829,436	1
Services: Business	38,830,024	37,656,325	13	22,726,850	21,415,794	8
Services: Consumer	4,308,990	4,193,044	1	4,512,488	4,493,529	2
Telecommunication	6,321,342	6,037,400	2	8,751,454	8,164,050	3
Textiles and Leather	12,408,779	11,382,280	4	12,389,673	12,180,290	4
Money Market Accounts	10,219,782	10,219,782	4	4,207,107	4,207,107	2
Transportation: Cargo	6,627,019	6,869,121	2	8,216,303	8,300,043	3
Total	\$ 367,119,915	\$ 289,079,495	100%	\$ 334,089,559	\$ 277,897,166	100%

¹ Calculated as a percentage of total portfolio at fair value.

² Represents the equity investment in the Asset Manager Affiliates.

The Company may invest up to 30% of the investment portfolio in “non-qualifying” opportunistic investments, including investments in debt and equity securities of CLO Funds, distressed debt or debt and equity securities of large cap public companies. Within this 30% of the portfolio, the Company also may invest in debt or equity of middle market companies located outside of the United States.

At September 30, 2020 and December 31, 2019, the total amount of non-qualifying assets was approximately 22.7% and 25.3% of total assets, respectively. The majority of non-qualifying assets are the Company's investments in joint ventures, in the aggregate representing 15.6% and 14.5% of total assets as of September 30, 2020 and December 31, 2019, respectively. In addition, the Company owns foreign investments which were approximately 7.0% and 10.6%, respectively, of the Company's total assets (including the Company's investments in CLO Funds, which are typically domiciled outside the U.S. and represent approximately 6.3% and 10.3% of its total assets on such dates, respectively).

Investments in CLO Fund Securities

The Company has made minority investments in the most junior class of securities (typically preferred shares or subordinated securities) of CLO Funds. These securities also are entitled to recurring distributions which generally equal the net remaining cash flow of the payments made by the underlying CLO Fund's securities less contractual payments to senior bond holders, management fees and CLO Fund expenses. CLO Funds invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which the Company has an investment are generally diversified secured or unsecured corporate debt. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders, fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred shares.

In September 2018, the Company purchased \$10 million par value of the subordinated notes of Catamaran CLO 2018-1 at a cost of approximately \$9.5 million.

In December 2018, the Company received \$2.5 million of notional amount of subordinated notes of Catamaran 2013-1 with a fair value of \$1.4 million and \$3.4 million of notional amount of subordinated notes of Catamaran 2014-1 with a fair value of \$1.9 million, as consideration for the repayment of a portion of the loans to Trimaran Advisors.

On December 19, 2017, the Company, in its capacity as the holder of all of the outstanding preferred shares of Katonah 2007-1 CLO Ltd. ("Katonah 2007-1"), exercised its right to cause Katonah 2007-1 to redeem all of its outstanding indebtedness through the sale of its investments and otherwise wind up its business. Katonah 2007-1 was fully liquidated and dissolved in the fourth quarter of 2018. Accordingly, the Company recorded a realized loss during the fourth quarter of 2018 of approximately \$10.1 million on its investment in Katonah 2007-1 and a corresponding unrealized gain of the same amount in order to reverse the previously recorded unrealized depreciation with respect to the investment.

Similarly, during the fourth quarter of 2018, each of Grant Grove CLO, Ltd., Trimaran CLO VII, Ltd., and Catamaran CLO 2012-1 Ltd. were fully liquidated and dissolved, and the Company recorded a realized loss of approximately \$6.4 million and a corresponding unrealized gain of the same amount in order to reverse the previously recorded unrealized depreciation with respect to these investments.

In the first quarter of 2019, the Company sold \$2.0 million notional amount of subordinated notes of Catamaran CLO 2014-1 for \$800,000.

In June 2019, the Company sold \$4.8 million par value of the CLO Rated note issued by Great Lakes KCAP F3C Senior, LLC for \$4.4 million.

As a result of the severe economic consequences resulting from the COVID 19 pandemic, during the second quarter of 2020, the Company was notified that four of the Catamaran CLO Funds breached certain covenants contained in their respective indentures, and as a result, available cash within the CLO Fund will be diverted away from the subordinated notes owned by the Company and will be applied to more senior noteholders in the capital structure of the CLO Funds. The estimated timing and amount of future distributions if any, from these CLO Fund Securities is uncertain.

Affiliate Investments:

The following table details investments in affiliates at September 30, 2020 (unaudited):

	Industry Classification	Fair Value of December 31, 2019	Purchases/(Sales) of or Advances/(Distributions)	Net Accretion	Transfers In/(Out) of Affiliates	Net change in unrealized Gain/(Loss)	Realized Gain/(Loss)	Fair Value of September 30, 2020	Principal at September 30, 2020	Interest Income	Dividend Income
Asset Manager Affiliates ⁽⁴⁾ ⁽⁶⁾	Asset Management Company	\$ —	—	—	—	—	\$ —	\$ —	\$ 17,791,230	\$ —	\$ —
Tank Partners Equipment Holdings, LLC ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁸⁾	Energy: Oil & Gas	—	—	—	—	—	—	49,000	—	—	
Tank Partners Equipment Holdings, LLC ⁽³⁾⁽⁴⁾⁽⁵⁾	Energy: Oil & Gas	403,616	—	—	—	(101,631)	—	301,984	699,199	—	—
KCAP Freedom 3, LLC ⁽³⁾ ⁽⁵⁾	Joint Venture	21,307,899	—	—	—	(4,132,888)	—	17,175,011	24,720,000	—	2,947,760
Total controlled affiliates		21,711,515	—	—	—	(4,234,519)	—	17,476,995		—	2,947,760
BCP Great Lakes Holdings LP ⁽⁷⁾⁽⁹⁾	Joint Venture	23,780,068	6,398,007	—	—	(521,475)	—	29,656,600	30,077,688	—	1,812,725
Catamaran CLO 2013-1, Ltd. ⁽¹⁾⁽²⁾⁽³⁾⁽⁷⁾	CLO Fund Securities	5,025,536	(336,215)	318,152	—	(2,297,601)	—	2,709,871	11,720,000	318,152	—
Catamaran CLO 2014-1, Ltd. ⁽¹⁾⁽²⁾⁽³⁾⁽⁷⁾	CLO Fund Securities	6,379,580	(423,653)	522,793	—	(4,147,021)	—	2,331,700	15,160,600	522,793	—
Catamaran CLO 2014-2, Ltd. ⁽¹⁾⁽²⁾⁽³⁾⁽⁷⁾	CLO Fund Securities	1,139,032	(60,226)	53,127	—	(1,131,933)	—	—	9,900,000	53,127	—
Catamaran CLO 2015-1, Ltd. ⁽¹⁾⁽²⁾⁽³⁾⁽⁷⁾	CLO Fund Securities	2,514,130	(147,608)	192,180	—	(1,006,250)	—	1,552,452	4,952,000	192,180	—
Catamaran CLO 2016-1, Ltd. ⁽¹⁾⁽²⁾⁽³⁾⁽⁷⁾	CLO Fund Securities	6,395,016	(764,089)	523,852	—	(2,121,087)	—	4,033,692	10,140,000	523,852	—
Catamaran CLO 2018-1, Ltd. ⁽¹⁾⁽²⁾⁽³⁾⁽⁷⁾	CLO Fund Securities	8,530,751	(1,118,951)	883,496	—	(1,464,297)	—	6,831,000	10,000,000	883,496	—
Navex Topco, Inc. ⁽³⁾⁽⁴⁾⁽⁷⁾	Electronics	7,636,090	—	62,615	—	(200,830)	—	7,497,875	7,700,000	456,191	—
Zest Acquisition Corp. ⁽³⁾⁽⁴⁾ ⁽⁷⁾	Healthcare, Education and Childcare	3,306,092	—	2,106	—	(411,948)	—	2,896,250	3,500,000	234,030	—
OCI Holdings, LLC ⁽³⁾⁽⁴⁾⁽⁷⁾	Healthcare & Pharmaceuticals	2,422,281	(2,706,977)	—	—	—	284,696	—	—	—	—
Total Non-controlled affiliates		67,128,578	840,288	2,558,321	—	(13,302,442)	284,696	57,509,440		3,183,821	1,812,725
Total Affiliated Investments		\$ 88,840,092	\$ 840,288	\$ 2,558,321	\$ —	\$ (17,536,961)	\$ 284,696	\$ 74,986,435		\$ 3,183,821	\$ 4,760,485

1 Non-U.S. company or principal place of business outside the U.S.

2 A CLO Fund managed by an affiliate of LibreMax.

3 Fair value of this investment was determined using significant unobservable inputs.

4 Qualified asset for purposes of section 55(a) of the Investment Company Act of 1940.

5 As defined in the 1940 Act, the Company is deemed to be both an "Affiliated Person" and has "Control" of this portfolio company as the Company owns more than 25% of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company securities or has the power to exercise control over management or policies of such portfolio company (including through a management agreement). Other than for purposes of the 1940 Act, the Company does not believe that it has control over this portfolio company.

- 6 As defined in the 1940 Act, the Company is deemed to be both an “Affiliated Person” and has “Control” of this portfolio company as the Company owns more than 25% of the portfolio company’s outstanding voting securities or has the power to exercise control over management or policies of such portfolio company.
- 7 Under the 1940 Act, the Company is deemed to be an “Affiliated Person” of, as defined in the 1940 Act, this portfolio company as the Company owns at least 5% but no more than 25% of the portfolio company’s outstanding voting securities or is under common control with such portfolio company. Other than for purposes of the 1940 Act, the Company does not believe that it has control over this portfolio company.
- 8 Number of shares held.
- 9 Ownership of LP interest held through the holding company BCP Great Lakes Fund, L.P, a non-U.S. company or principal place of business outside the U.S.

The following table details investments in affiliates at December 31, 2019:

	Industry Classification	Fair Value of December 31, 2018	Purchases/ (Sales) of or Advances/ (Distributions)	Net Accretion	Transfers In/(Out) of Affiliates	Net change in unrealized Gain/(Loss)	Realized Gain/(Loss)	Fair Value of December 31, 2019	Principal at December 31, 2019	Interest Income	Dividend Income
Asset Manager Affiliates(4) (6)	Asset Management Company	\$ 3,470,000	—	—	—	—	\$ (3,470,000)	\$ —	\$ 17,791,230	\$ —	\$ —
Tank Partners Holdings, LLC(3)(4)(5)(8)	Energy: Oil & Gas	1,000	6,228,000	—	—	(5,064,000)	(1,165,000)	—	49,000	—	—
Tank Partners Holdings, LLC(3)(4)(5)	Energy: Oil & Gas	—	620,145	—	—	(216,529)	—	403,616	648,879	—	—
KCAP Freedom 3, LLC (3) (5)	Joint Venture	18,390,440	—	—	—	2,917,459	—	21,307,899	24,720,000	—	3,750,000
Total controlled affiliates		21,861,440	6,848,145	—	—	(2,363,070)	(4,635,000)	21,711,515		—	3,750,000
BCP Great Lakes Holdings LP(5)(9)	Joint Venture	12,466,667	11,213,014	—	—	100,387	—	23,780,068	23,679,681	—	1,109,780
Catamaran CLO 2013-1, Ltd. (1)(2)(3)(7)	CLO Fund Securities	—	(1,208,865)	932,029	7,506,434	(2,204,062)	—	5,025,536	11,720,000	932,029	—
Catamaran CLO 2014-1, Ltd. (1)(2)(3)(7)	CLO Fund Securities	—	(1,254,962)	933,979	9,112,278	(2,411,715)	—	6,379,580	15,160,600	933,979	—
Catamaran CLO 2014-2, Ltd. (1)(2)(3)(7)	CLO Fund Securities	—	(521,228)	277,564	2,591,820	(1,209,124)	—	1,139,032	9,900,000	277,564	—
Catamaran CLO 2015-1, Ltd. (1)(2)(3)(7)	CLO Fund Securities	—	(551,159)	336,063	3,157,769	(428,544)	—	2,514,130	4,952,000	336,063	—
Catamaran CLO 2016-1, Ltd. (1)(2)(3)(7)	CLO Fund Securities	—	(1,033,625)	666,491	7,502,959	(740,809)	—	6,395,016	10,140,000	666,491	—
Catamaran CLO 2018-1, Ltd. (1)(2)(3)(7)	CLO Fund Securities	—	(1,597,115)	991,888	8,950,000	185,978	—	8,530,751	10,000,000	991,888	—
KCAP F3C Senior Funding Rated Notes(3)(7)	CLO Fund Securities	4,473,840	(4,417,967)	18,496	—	(66,734)	(7,635)	—	—	289,373	—
Navex Topco, Inc.(3)(4)(7)	Electronics	—	496,995	5,067	6,646,229	492,653	(4,854)	7,636,090	7,700,000	380,167	—
Zest Acquisition Corp.(3)(4) (7)	Healthcare, Education and Childcare	—	—	109	3,231,683	74,300	—	3,306,092	3,500,000	244,729	—
OCI Holdings, LLC(3)(4)(7)	Healthcare & Pharmaceuticals	—	—	—	2,422,281	—	—	2,422,281	31,817,483	—	—
Total Non-controlled affiliates		16,940,507	1,125,088	4,161,686	51,121,453	(6,207,668)	(12,489)	67,128,578		5,052,283	1,109,780
Total Affiliated Investments		\$ 38,801,947	\$ 7,973,232	\$ 4,161,686	\$ 51,121,453	\$ (8,570,738)	\$ (4,647,489)	\$ 88,840,092		\$ 5,052,283	\$ 4,859,780

- 1 Non-U.S. company or principal place of business outside the U.S.
- 2 A CLO Fund managed by an affiliate of LibreMax.
- 3 Fair value of this investment was determined using significant unobservable inputs.
- 4 Qualified asset for purposes of section 55(a) of the Investment Company Act of 1940.
- 5 As defined in the 1940 Act, the Company is deemed to be both an “Affiliated Person” and has “Control” of this portfolio company as the Company owns more than 25% of the portfolio company’s outstanding voting securities or has the power to exercise control over management or policies of such portfolio company securities or has the power to exercise control over management or policies of such portfolio company (including through a management agreement). Other than for purposes of the 1940 Act, the Company does not believe that it has control over this portfolio company.
- 6 As defined in the 1940 Act, the Company is deemed to be both an “Affiliated Person” and has “Control” of this portfolio company as the Company owns more than 25% of the portfolio company’s outstanding voting securities or has the power to exercise control over management or policies of such portfolio company.
- 7 Under the 1940 Act, the Company is deemed to be an “Affiliated Person” of, as defined in the 1940 Act, this portfolio company as the Company owns at least 5% but no more than 25% of the portfolio company’s outstanding voting securities or is under

common control with such portfolio company. Other than for purposes of the 1940 Act, the Company does not believe that it has control over this portfolio company.

8 Number of shares held.

9 Ownership of LP interest held through the holding company BCP Great Lakes Fund, L.P, a non-U.S. company or principal place of business outside the U.S.

During the third quarter of 2019, the Company sold its entire investment in Bristol Hospice, LLC to an affiliate. This transaction was approved by the Board of Directors of the Company.

Investment in Joint Ventures:

For the three months ended September 30, 2020 and 2019, the Company recognized \$2.2 million and \$1.3 million, respectively, in investment income from its investments in Joint Ventures. For the nine months ended September 30, 2020 and 2019, the Company recognized \$4.8 million and \$3.5 million, respectively, in investment income from its investments in Joint Ventures. As of September 30, 2020 and December 31, 2019, the fair value of the Company's investments in Joint Ventures was approximately \$46.8 million and \$45.1 million, respectively.

KCAP Freedom 3 LLC

During the third quarter of 2017, the Company and Freedom 3 Opportunities, an affiliate of Freedom 3 Capital LLC, entered into an agreement to create the Joint Venture. The Company and Freedom 3 Opportunities contributed approximately \$37 million and \$25 million, respectively, in assets to the Joint Venture, which in turn used the assets to capitalize the Fund managed by KCAP Management, LLC, one of the Asset Manager Affiliates. In addition, the Fund used cash on hand and borrowings under a credit facility to purchase approximately \$184 million of primarily middle-market loans from the Company and the Company used the proceeds from such sale to redeem approximately \$147 million in debt issued by KCAP Senior Funding. The Fund invests primarily in middle-market loans and the Joint Ventures partners may source middle-market loans from time-to-time for the Fund.

During the fourth quarter of 2017, the Fund was refinanced through the issuance of senior and subordinated notes. The Joint Venture purchased 100% of the subordinated notes issued by the Fund. In connection with the refinancing, the Joint Venture made a cash distribution to the Company of approximately \$12.6 million. \$11.8 million of this distribution was a return of capital, reducing the cost basis of its investment in the Joint Venture by that amount. The final determination of the tax attributes of distributions from the Joint Venture is made on an annual (full calendar year) basis at the end of the year, therefore, any estimate of tax attributes of distributions made on an interim basis may not be representative of the actual tax attributes of distributions for the full year.

The Company owns a 60% equity investment in the Joint Venture. The Joint Venture is structured as an unconsolidated Delaware limited liability company. All portfolio and other material decisions regarding the Joint Venture must be submitted to its board of managers, which is comprised of four members, two of whom were selected by the Company and two of whom were selected by Freedom 3 Opportunities, and must be approved by at least one member appointed by the Company and one appointed by Freedom 3 Opportunities. In addition, certain matters may be approved by the Joint Venture's investment committee, which is comprised of one member appointed by the Company and one member appointed by Freedom 3 Opportunities.

In connection with the Externalization, during the first quarter of 2019, KCAP Management agreed to waive management fees it is otherwise entitled to receive for managing the Fund. In addition, the Joint Venture was restructured such that the Company is now entitled to receive a preferred distribution in an amount equal to the fees waived by KCAP Management. The impact of these transactions was a reduction in the fair value of the Asset Manager Affiliates and an increase in the fair value of the Company's investment in the Joint Venture during the first quarter of 2019. The reduction in the fair value of the Asset Manager Affiliates was recognized as a realized loss on the consolidated statement of operations. The increase in the fair value of the Company's investment in the Joint Venture was recognized as an unrealized gain in the consolidated statement of operations.

The Company has determined that the Joint Venture is an investment company under Accounting Standards Codification ("ASC"), Financial Services — Investment Companies ("ASC 946"), however, in accordance with such guidance, the Company will generally not consolidate its investment in a company other than a wholly owned investment company subsidiary or a controlled operating company whose business consists of providing services to the Company. The Company does not consolidate its interest in the Joint Venture because the Company does not control the Joint Venture due to allocation of the voting rights among the Joint Venture partners.

KCAP Freedom 3 LLC
Summarized Statement of Financial Condition
(unaudited)

	As of September 30, 2020	As of December 31, 2019
Investment at fair value	\$ 27,095,060	\$ 33,737,631
Total Assets	<u>\$ 27,095,060</u>	<u>\$ 33,737,631</u>
Total Liabilities	\$ 167,389	\$ 135,457
Total Equity	26,927,671	33,602,174
Total Liabilities and Equity	<u>\$ 27,095,060</u>	<u>\$ 33,737,631</u>

KCAP Freedom 3 LLC
Summarized Statement of Operations
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Investment income	\$ 1,294,081	\$ 1,341,881	\$ 3,689,714	\$ 3,957,429
Operating expenses	1,997	35,191	33,497	54,183
Net investment income	1,292,084	1,306,690	3,656,217	3,903,246
Unrealized appreciation on investments	1,779,745	(1,663,956)	(5,583,581)	1,928,979
Net income	<u>\$ 3,071,829</u>	<u>\$ (357,266)</u>	<u>\$ (1,927,366)</u>	<u>\$ 5,832,225</u>

KCAP Freedom 3 LLC
Schedule of Investments
September 30, 2020
(unaudited)

Portfolio Company	Investment	Percentage Ownership by Joint Venture	Amortized Cost	Fair Value
Great Lakes KCAP F3C Senior, LLC(1)(2)	Subordinated Securities, effective interest 5.8%, 12/29 maturity	100.0%	\$ 39,742,392	\$ 27,095,060
Total Investments			<u>\$ 39,742,392</u>	<u>\$ 27,095,060</u>

- (1) CLO Subordinated Investments are entitled to periodic distributions which are generally equal to the remaining cash flow of the payments made by the underlying fund's investments less contractual payments to debt holders and fund expenses. The estimated annualized effective yield indicated is based upon a current projection of the amount and timing of these distributions. Such projections are updated on a quarterly basis and the estimated effective yield is adjusted prospectively.
- (2) Fair value of this investment was determined using significant unobservable inputs, including default rates, prepayment rates, spreads, and the discount rate by which to value the resulting cash flows.

KCAP Freedom 3 LLC
Schedule of Investments
December 31, 2019

Portfolio Company	Investment	Percentage Ownership by Joint Venture	Amortized Cost	Fair Value
Great Lakes KCAP F3C Senior, LLC ⁽¹⁾⁽²⁾⁽³⁾	Subordinated Securities, effective interest 11.2%, 12/29 maturity	100.0%	\$ 40,801,382	\$ 33,737,631
Total Investments			\$ 40,801,382	\$ 33,737,631

- (1) CLO Subordinated Investments are entitled to periodic distributions which are generally equal to the remaining cash flow of the payments made by the underlying fund's investments less contractual payments to debt holders and fund expenses. The estimated annualized effective yield indicated is based upon a current projection of the amount and timing of these distributions. Such projections are updated on a quarterly basis and the estimated effective yield is adjusted prospectively.
- (2) Fair value of this investment was determined using significant unobservable inputs, including default rates, prepayment rates, spreads, and the discount rate by which to value the resulting cash flows.
- (3) Formerly known as KCAP F3C Senior Funding, LLC

As a result of the severe economic consequences resulting from the COVID-19 pandemic, it is possible that the subordinated securities issued by Great Lakes KCAP F3C Senior LLC CLO, which are owned by KCAP Freedom 3 Joint Venture, could also cease making distributions to the KCAP Freedom 3 Joint Venture.

BCP Great Lakes Partnership LP

BCP Great Lakes Fund LP (the "BCP Great Lakes Partnership") has invested in BCP Great Lakes Holdings LP, a vehicle formed as a co-investment vehicle to facilitate the participation of certain co-investors to invest, directly or indirectly, in BCP Great Lakes Funding, LLC. (the "Great Lakes Joint Venture"). The Company is a limited partner in the BCP Great Lakes Partnership and does not have any direct or indirect voting interests in the Great Lakes Joint Venture, and treats the investment as a joint venture since an affiliate of the Adviser manages BCP Great Lakes Holdings LP and controls a 50% voting interest in the Great Lakes Joint Venture. This investment was made prior to the Externalization and as such the Company has changed its characterization from an equity investment prior to the Externalization to a joint venture investment once the Company became externally managed and an affiliate of the Adviser. The investment strategy of BCP Great Lakes Funding, LLC is to underwrite and hold senior, secured unitranche loans made to middle-market companies. The Company does not pay any advisory fees in connection with its investment in the BCP Great Lakes Partnership.

The fair value of the Company's investment in the BCP Great Lakes Partnership at September 30, 2020 and December 31, 2019 was \$29.7 million and \$23.8 million. Fair value has been determined utilizing the practical expedient pursuant to ASC 820-10. Pursuant to the terms of the BCP Great Lakes Fund LP Amended and Restated Exempted Limited Partnership Agreement (the "BCP Great Lakes Partnership Agreement"), the Company generally may not sell, exchange, assign, pledge or otherwise transfer its interest, in whole or in part, without the prior written consent of the General Partner which consent may be given or withheld in its sole and absolute discretion, and may be conditioned upon repayment of its share of indebtedness incurred by the partnership.

In March 2019, prior to the Externalization, the Company increased its aggregate commitment to the BCP Great Lakes Partnership to \$50 million, subject to certain limitations (including that the Company is not obligated to fund capital calls if such funding would cause the Company to be out of compliance with certain provisions of the Investment Company Act of 1940). As of September 30, 2020 and December 31, 2019, the Company has a \$19.9 million and \$26.3 million, respectively unfunded commitment to the BCP Great Lakes Partnership. However, at September 30, 2020 our funding commitment was limited to approximately \$4.9 million pursuant to the limitations described above.

Fair Value Measurements

The Company follows the provisions of ASC 820: Fair Value, which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. This standard defines fair value and establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820: Fair Value defines "fair value" as 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. This fair value definition focuses on an exit price in the principle, or most advantageous market, and prioritizes, within a measurement of fair value, the use of market-based inputs (which may be weighted or adjusted for relevance, reliability and specific attributes

relative to the subject investment) over entity-specific inputs. 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.

ASC 820: Fair Value establishes the following three-level hierarchy, based upon the transparency of inputs to the fair value measurement of an asset or liability as of the measurement date:

Level I – Unadjusted quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed securities. As required by ASC 820: Fair Value, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably affect the quoted price.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Such inputs may be quoted prices for similar assets or liabilities, quoted markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full character of the financial instrument, or inputs that are derived principally from, or corroborated by, observable market information. Investments which are generally included in this category include illiquid debt securities and less liquid, privately held or restricted equity securities for which some level of recent trading activity has been observed.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs may be based on the Company’s own assumptions about how market participants would price the asset or liability or may use Level II inputs, as adjusted, to reflect specific investment attributes relative to a broader market assumption. These inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data for comparable performance or valuation measures (earnings multiples, discount rates, other financial/valuation ratios, etc.) are available, such investments are grouped as Level III if any significant data point that is not also market observable (private company earnings, cash flows, etc.) is used in the valuation methodology.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the investment. A majority of the Company’s investments are classified as Level III. The Company evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value. Inputs that are highly correlated to the specific investment being valued and those derived from reliable or knowledgeable sources will tend to have a higher weighting in determining fair value. The Company’s fair value determinations may include factors such as an assessment of each underlying investment, its current and prospective operating and financial performance, consideration of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, performance factors, and other investment or industry specific market data, among other factors.

The following table summarizes the fair value of investments by fair value hierarchy levels provided by ASC 820: Fair Value as of September 30, 2020 (unaudited) and December 31, 2019, respectively:

	As of September 30, 2020 (Unaudited)				
	Level I	Level II	Level III	NAV	Total
Short Term investments	\$ —	\$ 10,219,782	\$ —	\$ —	\$ 10,219,782
Debt securities	—	38,920,949	165,645,309	—	204,566,258
CLO Fund securities	—	—	18,791,865	—	18,791,865
Equity securities	—	—	9,703,027	—	9,703,027
Joint Ventures	—	—	17,175,011	29,656,600	46,831,611
Derivatives	—	—	(1,033,048)	—	(1,033,048)
Total	\$ —	\$ 49,140,731	\$ 210,282,164	\$ 29,656,600	\$ 289,079,495

As of December 31, 2019

	Level I	Level II	Level III	NAV	Total
Short Term investments	\$ —	\$ 4,207,107	\$ —	\$ —	\$ 4,207,107
Debt securities	—	38,420,182	148,382,726	—	186,802,908
CLO Fund securities	—	—	31,968,202	—	31,968,202
Equity securities	—	—	9,864,419	—	9,864,419
Joint Ventures	—	—	21,307,899	23,780,068	45,087,967
Derivatives	—	—	(33,437)	—	(33,437)
Total	\$ —	\$ 42,627,289	\$ 211,489,810	\$ 23,780,068	\$ 277,897,166

As a BDC, the Company is required to invest primarily in the debt and equity of non-public companies for which there is little, if any, market-observable information. As a result, a significant portion of the Company's investments at any given time will likely be deemed Level III investments. Investment values derived by a third-party pricing service are generally deemed to be Level III values. For those that have observable trades, the Company considers them to be Level II.

The fair value of the Company's investment in the BCP Great Lakes Partnership at September 30, 2020 and December 31, 2019 was \$29.7 million and \$23.8 million, respectively. Fair value has been determined utilizing the practical expedient pursuant to ASC 820-10.

Subject to the limitations noted above, values derived for debt and equity securities using comparable public/private companies generally utilize market-observable data from such comparables and specific, non-public and non-observable financial measures (such as earnings or cash flows) for the private, underlying company/issuer. Such non-observable company/issuer data is typically provided on a monthly or quarterly basis, is certified as correct by the management of the company/issuer and/or audited by an independent accounting firm on an annual basis. Since such private company/issuer data is not publicly available it is not deemed market-observable data and, as a result, such investment values are grouped as Level III assets.

The Company's policy for determining transfers between levels is based solely on the previously defined three-level hierarchy for fair value measurement. Transfers between the levels of the fair value hierarchy are separately noted in the tables below and the reason for such transfer described in each table's respective footnotes. Certain information relating to investments measured at fair value for which the Company has used unobservable inputs to determine fair value is as follows:

	Nine months ended September 30, 2020						Total
	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliate	Joint Ventures	Derivatives	
Balance, December 31, 2019	\$ 148,382,726	\$ 31,968,202	\$ 9,864,419	\$ —	\$ 21,307,899	\$ (33,437)	\$ 211,489,810
Transfers out of Level III ¹	(11,638,126)	—	—	—	—	—	(11,638,126)
Transfers into Level III ²	10,370,085	—	—	—	—	—	10,370,085
Net accretion	1,114,042	2,740,902	—	—	—	—	3,854,944
Purchases	68,230,675	—	1,285,833	—	—	—	69,516,508
Sales/Paydowns/Return of Capital	(37,319,499)	(3,257,187)	(669,215)	—	—	(976,968)	(42,222,868)
Total realized gain (loss) included in earnings	(4,936,119)	—	(1,189,287)	—	—	976,968	(5,148,438)
Change in unrealized gain (loss) included in earnings	(8,558,476)	(12,660,052)	411,276	—	(4,132,888)	(999,612)	(25,939,752)
Balance, September 30, 2020	\$ 165,645,309	\$ 18,791,865	\$ 9,703,027	\$ —	\$ 17,175,011	\$ (1,033,048)	\$ 210,282,163
Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date	\$ (6,336,180)	\$ (12,660,052)	\$ 411,276	\$ —	\$ (4,132,888)	\$ (999,612)	\$ (23,717,456)

¹ Transfers out of Level III represent a transfer of \$11.6 million relating to debt securities for which pricing inputs, other than their quoted prices in active markets were observable as of September 30, 2020.

² Transfers into Level III represent a transfer of \$10.4 million relating to debt securities for which pricing inputs, other than their quoted prices in active markets were unobservable as of September 30, 2020.

Year Ended December 31, 2019

	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliate	Joint Venture	Derivatives	Total
Balance, December 31, 2018	\$ 106,741,671	\$ 44,325,000	\$ 2,038,020	\$ 3,470,000	\$ 18,390,440	\$ —	\$ 174,965,131
Transfers out of Level III ¹	(10,079,999)	—	—	—	—	—	(10,079,999)
Transfers into Level III ²	10,415,885	—	—	—	—	—	10,415,885
Net accretion	209,052	6,162,690	—	—	—	—	6,371,742
Purchases	108,079,125	—	14,966,500	—	—	30,609	123,076,234
Sales/Paydowns/Return of Capital	(71,139,395)	(13,629,382)	(371,222)	—	—	—	(85,139,999)
Total realized gain included in earnings	(10,084,819)	(1,395,218)	(1,912,048)	(3,470,000)	—	—	(16,862,085)
Total unrealized gain (loss) included in earnings	14,241,206	(3,494,888)	(4,856,831)	—	2,917,459	(64,046)	8,742,900
Balance, December 31, 2019	<u>\$ 148,382,726</u>	<u>\$ 31,968,202</u>	<u>\$ 9,864,419</u>	<u>\$ —</u>	<u>\$ 21,307,899</u>	<u>\$ (33,437)</u>	<u>\$ 211,489,810</u>
Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date	<u>\$ (4,160,677)</u>	<u>\$ (4,346,029)</u>	<u>\$ (4,856,831)</u>	<u>\$ —</u>	<u>\$ 2,917,459</u>	<u>\$ (64,046)</u>	<u>\$ (10,510,124)</u>

1 Transfers out of Level III represent a transfer of \$10.1 million relating to debt securities for which pricing inputs, other than their quoted prices in active markets were observable as of December 31, 2019.

2 Transfers into Level III represent a transfer of \$10.4 million relating to debt securities for which pricing inputs, other than their quoted prices in active markets were unobservable as of December 31, 2019.

As of September 30, 2020 and December 31, 2019, the Company's Level II portfolio investments were valued by a third party pricing services for which the prices are not adjusted and for which inputs are observable or can be corroborated by observable market data for substantially the full character of the financial instrument, or by inputs that are derived principally from, or corroborated by, observable market information. The fair value of the Company's Level II portfolio investments was \$49.1 million and \$42.6 million as of September 30, 2020 and December 31, 2019, respectively.

As of September 30, 2020, the Company's Level III portfolio investments had the following valuation techniques and significant inputs:

Type	Fair Value	Primary Valuation Methodology	Unobservable Inputs	Range of Inputs (Weighted Average)
Debt Securities	\$ 11,862,570	Enterprise Value	Average EBITDA Multiple	6.0x-7.9x (6.6x)
	153,782,739	Income Approach	Implied Discount Rate	5.0%-23.0% (11.1%)
Equity Securities	9,700,027	Enterprise Value	Average EBITDA Multiple / WACC	3.2x-9.0x (0.9x)
	3,000	Options Value	Qualitative Inputs ⁽¹⁾	
CLO Fund Securities	18,791,865	Discounted Cash Flow	Discount Rate	13.8%-15.8% (14.8%)
			Probability of Default	2.0%-5.5% (3.5%)
			Loss Severity	20.0%-30.5% (25.5%)
			Recovery Rate	69.5%-80.0% (74.5%)
			Prepayment Rate	0.0%-25.0% (12.5%)
Joint Ventures	17,175,011	Discounted Cash Flow	Discount Rate	16.0%-17.0% (16.5%)
			Probability of Default	3.5%-6.0% (4.8%)
			Loss Severity	21.0%-31.0% (26.0%)
			Recovery Rate	69.0%-79.0% (74.0%)
			Prepayment Rate	0.0%-25.0% (12.5%)
Derivatives	(1,033,048)	Market Approach	Transacted Value/Contractual Financing Rate	
Total Level III Investments	\$ 210,282,164			

- ¹ The qualitative inputs used in the fair value measurements of Equity Securities include estimates of the distressed liquidation value of the pledged collateral. In cases where Portman Ridge's analysis ascribes no residual value to a portfolio company's equity, Portman Ridge typically elects to mark its position at a nominal amount to account for the investment's option value.
- ² The qualitative inputs used in the fair value measurements include the value of the pledged collateral.

As of December 31, 2019, the Company's Level III portfolio investments had the following valuation techniques and significant inputs:

Type	Fair Value	Primary Valuation Methodology	Unobservable Inputs	Range of Inputs (Weighted Average)
Debt Securities	\$ 11,959,848	Enterprise Value	Average EBITDA Multiple	5.0x-8.3x (7.0x)
	136,422,878	Income Approach	Implied Discount Rate	5.9%-24.0% (10.3%)
Equity Securities	9,859,419	Enterprise Value	Average EBITDA Multiple / WACC	3.2x-14.5x (14.0x)
	5,000	Options Value	Qualitative Inputs ⁽¹⁾	
CLO Fund Securities	31,968,202	Discounted Cash Flow	Discount Rate	13.3%-15.0% (13.9%)
			Probability of Default	1%-2% (1.5%)
			Loss Severity	20.0%-39.5% (29.5%)
			Recovery Rate	60.5%-80.0% (70.5%)
			Prepayment Rate	15.0%-25.0% (20.0%)
Joint Ventures	21,307,899	Discounted Cash Flow	Discount Rate	16.0%-17.3% (16.6%)
			Probability of Default	2%-3% (2.5%)
			Loss Severity	20.5%-39.5% (30.0%)
			Recovery Rate	60.5%-79.5% (70.0%)
			Prepayment Rate	15.0%-25.0% (20.0%)
Derivatives	(33,437)	Market Approach	Transacted Value/Contractual Financing Rate	
Total Level III Investments	\$ 211,489,810			

- ¹ The qualitative inputs used in the fair value measurements of Equity Securities include estimates of the distressed liquidation value of the pledged collateral. In cases where Portman Ridge's analysis ascribes no residual value to a portfolio company's equity, Portman Ridge typically elects to mark its position at a nominal amount to account for the investment's option value.
- ² The qualitative inputs used in the fair value measurements include the value of the pledged collateral.

The significant unobservable inputs used in the fair value measurement of the Company's debt securities may include, among other things, broad market indices, the comparable yields of similar investments in similar industries, effective discount rates, average EBITDA multiples, and weighted average cost of capital. Significant increases or decreases in such comparable yields would result in a significantly lower or higher fair value measurement, respectively.

The significant unobservable inputs used in the fair value measurement of the Company's equity securities include the EBITDA multiple of similar investments in similar industries and the weighted average cost of capital. Significant increases or decreases in such inputs would result in a significantly lower or higher fair value measurement.

Significant unobservable inputs used in the fair value measurement of the Company's CLO Fund Securities include default rates, recovery rates, prepayment rates, spreads, and the discount rate by which to value the resulting underlying cash flows. Such assumptions can vary significantly, depending on market data sources which often vary in depth and level of analysis, understanding of the CLO market, detailed or broad characterization of the CLO market and the application of such data to an appropriate framework for analysis. The application of data points are based on the specific attributes of each individual CLO Fund Security's underlying assets, historic, current and prospective performance, vintage, and other quantitative and qualitative factors that would be evaluated by market participants. The Company evaluates the source of market data for reliability as an indicative market input, consistency amongst other inputs and results and also the context in which such data is presented. Significant increases or decreases in probability of default and loss severity inputs in isolation would result in a significantly lower or higher fair value measurement, respectively. In general, a change in the assumption of the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity in an event of default. Significant increases or decreases in the discount rate in isolation would result in a significantly lower or higher fair value measurement.

The Company's investment in the Joint Venture- KCAP Freedom 3 LLC is carried at fair value based upon the fair value of the investments held by the Joint Venture.

The Company values derivative contracts using various pricing models that take into account the terms of the contract (including notional amount and contract maturity) and observable and unobservable inputs such as interest rates and changes in fair value of the reference asset.

The following table details derivative investments at September 30, 2020 and December 31, 2019:

Types of contracts	September 30, 2020			
	Notional amounts	Derivative assets (liabilities) ¹	Realized gain(loss)	Unrealized gain(loss)
Call option	\$ 7,656	\$ 60,147	\$ —	\$ 29,538
Securities Swap and Option Agreement	5,500,000	(1,093,195)	—	(1,093,195)
Total	\$ 5,507,656	\$ (1,033,048)	\$ —	\$ (1,063,657)

(1) Net amount included in the derivative caption on the consolidated balance sheet

Types of contracts	December 31, 2019			
	Notional amounts	Derivative assets (liabilities) ¹	Realized gain(loss)	Unrealized gain(loss)
Call option	\$ 7,656	\$ 7,656	\$ —	\$ (22,953)
Securities Swap and Option Agreement	5,500,000	(41,093)	—	(41,093)
Total	\$ 5,507,656	\$ (33,437)	\$ —	\$ (64,046)

(1) Net amount included in the derivative caption on the consolidated balance sheet

The recent outbreak of the novel coronavirus, or COVID-19, in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The global impact of the outbreak has been rapidly evolving, and as cases of the virus have continued to be identified in additional countries, many countries have reacted by instituting quarantines, restrictions on travel and other measures to mitigate the impact of this pandemic. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries, including, among others, transportation, hospitality and entertainment. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown and continued volatility. The rapid development and fluidity of this situation precludes any prediction as to the duration and extent of this pandemic and its impact on the Company's business, financial condition and results of operations, as well as the business, financial condition and results of operations of the Company's portfolio companies. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to our and our portfolio companies' performance and financial results. The Company is actively monitoring developments with respect to this pandemic and its impact as part of the Company's overall investment objective and strategy.

5. ASSET MANAGER AFFILIATES

Wholly-Owned Asset Managers

On December 31, 2018, the Company's wholly-owned subsidiary Commodore Holdings, LLC ("Commodore") sold its wholly-owned asset management subsidiaries Katonah Debt Advisors, Trimaran Advisors and Trimaran Advisors Management, representing substantially all of the Company's investment in the Asset Manager Affiliates. Commodore received cash proceeds of \$37.9 million from the sale and distributed \$33.8 million in cash to the Company. All of this cash distribution was recorded as a return of capital. No realized gain or loss was recognized due to this transaction.

The Asset Manager Affiliates manage CLO Funds primarily for third party investors that invest primarily in broadly syndicated loans, high yield bonds and other credit instruments issued by corporations. At September 30, 2020 and December 31, 2019, the Asset Manager Affiliates had approximately \$300 million of par value of assets under management, respectively, and the Company's 100% equity interest in the Asset Manager Affiliates was deemed to have no value.

No distributions were declared during the three and nine months ended September 30, 2020.

The tax attributes of distributions received from the Asset Manager Affiliates are determined on an annual basis. The Company makes an estimate of the tax-basis earnings and profits of the Asset Manager Affiliates on a quarterly basis, and any quarterly distributions received in excess of the estimated earnings and profits are recorded as return of capital (reduction in the cost basis of the investment in Asset Manager Affiliate).

In accordance with Rules 3-09, Rule 4-08(g) and 1-02 of Regulation S-X, additional financial information with respect to the Asset Manager Affiliates is required to be included in the Company's SEC filings. The additional information regarding the Asset Manager Affiliates is set forth below. This additional financial information regarding the Asset Manager Affiliates does not directly impact the financial position, results of operations, or cash flows of the Company.

Asset Manager Affiliates
Summarized Statements of Operations Information (unaudited)

	For the Three Months Ended September 30,	For the Nine Months Ended September 30,
	2018	2018
Fee Revenue	\$ 2,712,405	\$ 8,662,932
Interest Income	645,795	2,914,386
Total Income	3,358,200	11,577,318
Operating Expenses	1,941,795	7,287,001
Interest Expense	935,654	3,648,760
Total Expenses	2,877,449	10,935,761
Income before unrealized gains on investments and income taxes	480,751	641,557
Unrealized gains on investments	207,427	410,888
(Loss) Income before income taxes	688,178	1,052,445
Income Tax (Benefit)	(161,584)	(490,150)
Net (Loss) Income	\$ 849,762	\$ 1,542,595

Except for KCAP Management, LLC, which is a disregarded entity whose tax results are included with the Company's tax results, as separately regarded entities for tax purposes, the Asset Manager Affiliates are taxed at normal corporate rates. In order to maintain the Company's RIC status, any tax-basis dividends paid by the Asset Manager Affiliates to the Company would generally need to be distributed to the Company's shareholders. Generally, such tax-basis dividends of the Asset Manager Affiliates' income which was distributed to the Company's shareholders will be considered as qualified dividends for tax purposes. The Asset Manager Affiliates' taxable net income will differ from GAAP net income because of deferred tax temporary differences and permanent tax adjustments. Deferred tax temporary differences may include differences for the recognition and timing of amortization and depreciation, compensation related expenses, and net loss carryforward, among other things. Permanent differences may include adjustments, limitations or disallowances for meals and entertainment expenses, penalties, tax goodwill amortization and net operating loss carryforward.

6. RELATED PARTY TRANSACTIONS

Advisory Agreement

The Adviser provides management services to the Company pursuant to the Advisory Agreement. Under the terms of the Advisory Agreement, the Adviser is responsible for the following:

- managing the Company's assets in accordance with our investment objective, policies and restrictions;
- determining the composition of the Company's portfolio, the nature and timing of the changes to the portfolio and the manner of implementing such changes;
- identifying, evaluating and negotiating the structure of the Company's investments;
- monitoring the Company's investments;
- determining the securities and other assets that the Company will purchase, retain or sell;
- assisting the Board with its valuation of the Company's assets;
- directing investment professionals of the Adviser to provide managerial assistance to the Company's portfolio companies;
- performing due diligence on prospective portfolio companies;
- exercising voting rights in respect of portfolio securities and other investments for the Company;
- serving on, and exercising observer rights for, boards of directors and similar committees of our portfolio companies; and
- providing the Company with such other investment advisory, research and related services as we may, from time to time, reasonably require for the investment of capital.

The Adviser's services under the Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired.

Term

On April 1, 2019, the Company entered into the Advisory Agreement with the Adviser. Unless earlier terminated as described below, the Investment Advisory Agreement will remain in effect until April 1, 2021, a period of two years from the date it first became effective and will remain in effect from year-to-year thereafter if approved annually by a majority of the Board or by the holders of a majority of the outstanding shares, and, in each case, a majority of the independent directors.

The Advisory Agreement will automatically terminate within the meaning of the 1940 Act and related Securities and Exchange Commission ("SEC") guidance and interpretations in the event of its assignment. In accordance with the 1940 Act, without payment of any penalty, we may terminate the Advisory Agreement with the Adviser upon 60 days' written notice. The decision to terminate the agreement may be made by a majority of the Board or the stockholders holding a majority of the outstanding shares of our common stock. See "Advisory Agreement—Removal of Adviser" below. In addition, without payment of any penalty, the Adviser may generally terminate the Advisory Agreement upon 60 days' written notice and, in certain circumstances, the Adviser may only be able to terminate the Advisory Agreement upon 120 days' written notice.

Removal of Adviser

The Adviser may be removed by the Board or by the affirmative vote of a Majority of the Outstanding Shares. "Majority of the Outstanding Shares" means the lesser of (1) 67% or more of the outstanding shares of our common stock present at a meeting, if the holders of more than 50% of the outstanding shares of our common stock are present or represented by proxy or (2) a majority of outstanding shares of our common stock.

Compensation of Adviser

Pursuant to the terms of the Advisory Agreement, the Company pays the Adviser (i) a base management fee (the "Base Management Fee") and (ii) an incentive fee (the "Incentive Fee"). For the period from the date of the Advisory Agreement (the "Effective Date") through the end of the first calendar quarter after the Effective Date, the Base Management Fee will be calculated at an annual rate of 1.50% of the Company's gross assets, excluding cash and cash equivalents, but including assets purchased with borrowed amounts, as of the end of such calendar quarter. Subsequently, the Base Management Fee will be 1.50% of the Company's average gross assets, excluding cash and cash equivalents, but including assets purchased with borrowed amounts, at the end of the two most recently completed calendar quarters; provided, however, that the Base Management Fee will be 1.00% of the Company's

average gross assets, excluding cash and cash equivalents, but including assets purchased with borrowed amounts, that exceed the product of (i) 200% and (ii) the value of the Company's net asset value at the end of the most recently completed calendar quarter. The Incentive Fee consists of two parts: (1) a portion based on the Company's pre-incentive fee net investment income (the "Income-Based Fee") and (2) a portion based on the net capital gains received on the Company's portfolio of securities on a cumulative basis for each calendar year, net of all realized capital losses and all unrealized capital depreciation on a cumulative basis, in each case calculated from the Effective Date, less the aggregate amount of any previously paid capital gains Incentive Fee (the "Capital Gains Fee"). The Income-Based Fee is 17.50% of pre-incentive fee net investment income with a 7.00% hurdle rate. The Capital Gains Fee is 17.50%.

Pre-incentive fee net investment income means dividends (including reinvested dividends), interest and fee income accrued by the Company during the calendar quarter, minus operating expenses for the quarter (including the management fee, expenses payable under the administration agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind ("PIK") interest and zero coupon securities), accrued income that the Company may not have received in cash. The Adviser is not obligated to return the incentive fee it receives on PIK interest that is later determined to be uncollectible in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

To determine the income incentive fee, pre-incentive fee net investment income is expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter. Because of the structure of the incentive fee, it is possible that the Company may pay an incentive fee in a calendar quarter in which the Company incurs a loss. For example, if the Company receives pre-incentive fee net investment income in excess of the quarterly hurdle rate, the Company will pay the applicable incentive fee even if the Company has incurred a loss in that calendar quarter due to realized capital losses and unrealized capital depreciation. In addition, because the quarterly hurdle rate is calculated based on our net assets, decreases in the Company's net assets due to realized capital losses or unrealized capital depreciation in any given calendar quarter may increase the likelihood that the hurdle rate is reached and therefore the likelihood of the Company paying an incentive fee for the subsequent quarter. The Company's net investment income used to calculate this component of the incentive fee is also included in the amount of the Company's gross assets used to calculate the management fee because gross assets are total assets (including cash received) before deducting liabilities (such as declared dividend payments).

The second component of the incentive fee, the capital gains incentive fee, payable at the end of each calendar year in arrears, equals 17.50% of cumulative realized capital gains through the end of such calendar year commencing with the calendar year ending December 31, 2019, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, in each case calculated from the Effective Date, less the aggregate amount of any previously paid capital gains incentive fee for prior periods. The Company will accrue, but will not pay, a capital gains incentive fee with respect to unrealized appreciation because a capital gains incentive fee would be owed to the Adviser if the Company were to sell the relevant investment and realize a capital gain. In no event will the capital gains incentive fee payable pursuant to the Investment Advisory Agreement be in excess of the amount permitted by the Investment Advisers Act of 1940, as amended (the "Advisers Act") including Section 205 thereof.

The fees that are payable under the Investment Advisory Agreement for any partial period will be appropriately prorated.

Limitations of Liability and Indemnification

Under the Advisory Agreement, the Adviser, its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with the Adviser, including without limitation its managing member, will not be liable to the Company for acts or omissions performed in accordance with and pursuant to the Advisory Agreement, except those resulting from acts constituting criminal conduct, gross negligence, willful misfeasance, bad faith or reckless disregard of the duties that the Adviser owes to the Company under the Advisory Agreement. In addition, as part of the Advisory Agreement, the Company has agreed to indemnify the Adviser and each of its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with the Adviser, including without limitation its general partner, and the Administrator from and against any damages, liabilities, costs and expenses, including reasonable legal fees and other expenses reasonably incurred, in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Company or its security holders) arising out of or otherwise based upon the performance of any of the Adviser's duties or obligations under the Advisory Agreement or otherwise as an investment adviser of the Company, except where attributable to criminal conduct, gross negligence, willful misfeasance, bad faith or reckless disregard of such person's duties under the Advisory Agreement.

Board Approval of the Advisory Agreement

On December 12, 2018, the then-current Board of the Company held an in-person meeting to consider and approve the Advisory Agreement and related matters. The Board was provided the information required to consider the Advisory Agreement, including: (a) the nature, quality and extent of the advisory and other services to be provided to the Company by the Adviser; (b) comparative data with respect to advisory fees or similar expenses paid by other BDCs with similar investment objectives; (c) the Company projected operating expenses and expense ratio compared to BDCs with similar investment objectives; (d) any existing and potential

sources of indirect income to the Adviser from its relationship with the Company and the profitability of that relationship; (e) information about the services to be performed and the personnel performing such services under the Advisory Agreement; (f) the organizational capability and financial condition of the Adviser and its affiliates; (g) the Adviser's practices regarding the selection and compensation of brokers that may execute our portfolio transactions and the brokers' provision of brokerage and research services to the Adviser; and (h) the possibility of obtaining similar services from other third-party service providers or continuing to operate as an internally managed BDC.

The Board, including a majority of independent directors, will oversee and monitor the Company's investment performance and, beginning with the second anniversary of the effective date of the Advisory Agreement, will annually review the compensation we pay to the Adviser.

Management fees for the three months ended September 30, 2020 and 2019, were approximately \$1.0 million and \$1.0 million, respectively. Management fees for the nine months ended September 30, 2020 and 2019, were approximately \$3.1 million and \$2.1 million, respectively. Incentive fees earned during the three and nine months ended September 30, 2020, were approximately \$572 thousand and \$1.1 million, \$557 thousand of which were waived pursuant to the Externalization Agreement during the nine months ended September 30, 2020. There were no incentive fees earned for the three and nine months ended September 30, 2019.

Administration Agreement

Under the terms of the administration agreement (the "Administration Agreement") between the Company and BC Partners Management LLC (the "Administrator"), the Administrator will perform, or oversee the performance of, required administrative services, which includes providing office space, equipment and office services, maintaining financial records, preparing reports to stockholders and reports filed with the SEC, and managing the payment of expenses and the performance of administrative and professional services rendered by others. The Company will reimburse the Administrator for services performed for us pursuant to the terms of the Administration Agreement. In addition, pursuant to the terms of the Administration Agreement, the Administrator may delegate its obligations under the Administration Agreement to an affiliate or to a third party and the Company will reimburse the Administrator for any services performed for it by such affiliate or third party.

Payments under the Administration Agreement are equal to an amount that reimburses the Administrator for its costs and expenses in performing its obligations and providing personnel and facilities (including rent, office equipment and utilities) for the Company's use under the Administration Agreement, including an allocable portion of the compensation paid to the Company's chief compliance officer and chief financial officer and their respective staff who provide services to the Company. The Board, including the independent directors, will review the general nature of the services provided by the Administrator as well as the related cost to the Company for those services and consider whether the cost is reasonable in light of the services provided.

On April 1, 2019, the Board approved the Administration Agreement with the Administrator. Unless earlier terminated as described below, the Administration Agreement will remain in effect until April 1, 2021, a period of two years from the date it first became effective and will remain in effect from year-to-year thereafter if approved annually by a majority of the Board or by the holders of a Majority of the Outstanding Shares, and, in each case, a majority of the independent directors.

The Company may terminate the Administration Agreement, without payment of any penalty, upon 60 days' written notice. The decision to terminate the agreement may be made by a majority of the Board or the stockholders holding a Majority of the Outstanding Shares. In addition, the Adviser may terminate the Administration Agreement, without payment of any penalty, upon 60 days' written notice.

The Company incurred \$0.5 million and \$1.4 million, respectively, of Administrative services expense for the three and nine months ended September 30, 2020. The Company incurred \$0.4 million and \$0.8 million, respectively, of Administrative services expense for the three and nine months ended September 30, 2019.

Payment of Expenses under the Advisory and Administration Agreements

Except as specifically provided below, all investment professionals and staffs of the Adviser, when and to the extent engaged in providing investment advisory and management services to the Company, and the compensation and routine overhead expenses (including rent, office equipment and utilities), of such personnel allocable to such services, is provided and paid for by the Adviser. The Company bears an allocable portion of the compensation paid by the Adviser (or its affiliates) to the Company's chief compliance officer and chief financial officer and their respective staffs (based on a percentage of time such individuals devote, on an estimated basis, to our business affairs). The Company also bears all other costs and expenses of our operations, administration and transactions, including, but not limited to (i) investment advisory fees, including management fees and incentive fees, to the Adviser, pursuant to the Advisory Agreement; (ii) an allocable portion of overhead and other expenses incurred by the Adviser (or its affiliates) in

performing its administrative obligations under the Advisory Agreement, and (iii) all other expenses of our operations and transactions including, without limitation, those relating to:

- the cost of calculating the Company's net asset value, including the cost of any third-party valuation services;
- the cost of effecting any sales and repurchases of the Company's common stock and other securities;
- fees and expenses payable under any dealer manager or placement agent agreements, if any;
- administration fees payable under the Administration Agreement and any sub-administration agreements, including related expenses;
- debt service and other costs of borrowings or other financing arrangements;
- costs of hedging;
- expenses, including travel expense, incurred by the Adviser, or members of the investment team, or payable to third parties, performing due diligence on prospective portfolio companies and, if necessary, enforcing our rights;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees, any stock exchange listing fees and fees payable to rating agencies;
- federal, state and local taxes;
- independent directors' fees and expenses including certain travel expenses;
- costs of preparing financial statements and maintaining books and records and filing reports or other documents with the SEC (or other regulatory bodies) and other reporting and compliance costs, including registration and listing fees, and the compensation of professionals responsible for the preparation of the foregoing;
- the costs of any reports, proxy statements or other notices to stockholders (including printing and mailing costs), the costs of any stockholder or director meetings and the compensation of personnel responsible for the preparation of the foregoing and related matters;
- commissions and other compensation payable to brokers or dealers;
- research and market data;
- fidelity bond, directors and officers errors and omissions liability insurance and other insurance premiums;
- direct costs and expenses of administration, including printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits, outside legal and consulting costs;
- costs of winding up our affairs;
- costs incurred by either the Administrator or us in connection with administering our business, including payments under the Administration Agreement;
- extraordinary expenses (such as litigation or indemnification);
- costs associated with reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and
- costs associated with the Company's legacy lease;

Co-investment Exemptive Relief

As a BDC, the Company is subject to certain regulatory restrictions in making its investments. For example, BDCs generally are not permitted to co-invest with certain affiliated entities in transactions originated by the BDC or its affiliates in the absence of an

exemptive order from the SEC. However, BDCs are permitted to, and may, simultaneously co-invest in transactions where price is the only negotiated term.

On October 23, 2018, the SEC issued an order granting an application for exemptive relief to an affiliate of the Adviser that allows BDCs managed by the Adviser, including the Company, to co-invest, subject to the satisfaction of certain conditions, in certain private placement transactions, with other funds managed by the Advisers or its affiliates, including BCP Special Opportunities Fund I LP, BC Partners Lending Corporation and any future funds that are advised by the Adviser or its affiliated investment advisers. Under the terms of the exemptive order, in order for the Company to participate in a co-investment transaction a “required majority” (as defined in Section 57(o) of the 1940 Act) of the Company’s independent directors must conclude that (i) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to the Company and its stockholders and do not involve overreaching with respect of the Company or its stockholders on the part of any person concerned, and (ii) the proposed transaction is consistent with the interests of the Company’s stockholders and is consistent with the Company’s investment objectives and strategies and certain criteria established by the Board.

On October 30, 2017, the Company entered into a new term loan agreement with Trimaran Advisors, one of the Asset Manager Affiliates. Trimaran Advisors borrowed \$8.4 million under this agreement, which bore interest at a rate of 10.5% annually, payable quarterly. The loan matures on April 30, 2030, can be repaid at any time, and must be repaid upon the occurrence of certain events. During the third quarter 2018 \$2.1 million of the principal on this loan was repaid by Trimaran Advisors. During the fourth quarter of 2018, Trimaran Advisors repaid this loan in full. Repayment was comprised of \$3.0 million of cash and \$2.5 million notional amount of subordinated notes of Catamaran 2013-1 with a fair value of \$1.4 million and \$3.4 million of notional amount of subordinated notes of Catamaran 2014-1 with a fair value of \$1.9 million.

Trimaran Credit Facility

On February 26, 2013, the Company entered into a senior credit agreement (the “Trimaran Credit Facility”) with Trimaran Advisors, pursuant to which Trimaran Advisors may borrow from time to time up to \$20 million from the Company in order to provide capital necessary to support one or more of Trimaran Advisors’ warehouse lines of credit and/or working capital in connection with Trimaran Advisors’ warehouse activities. The Trimaran Credit Facility, which expired on November 20, 2017 and bore interest at an annual rate of 9.0%. On April 15, 2013, the Trimaran Credit Facility was amended and upsized from \$20 million to \$23 million. Outstanding borrowings on the Trimaran Credit Facility were callable by the Company at any time. The Trimaran Credit Facility was fully repaid and terminated in the fourth quarter of 2018.

On October 31, 2017, Trimaran Advisors capitalized Trimaran Risk Retention Holdings, LLC, a newly-formed wholly-owned subsidiary, with \$8.4 million of equity capital. In turn, Trimaran Risk Retention Holdings capitalized Trimaran RR I, LLC, a wholly-owned subsidiary of Trimaran Risk Retention Holdings, LLC, with \$8.4 million of equity capital. With this equity contribution and other borrowed funds, Trimaran RR II, LLC purchased \$34.8 million notional amount of notes issued by Catamaran CLO 2014-1, Ltd. for aggregate consideration of \$35.5 million. On December 21, 2017, the Company entered into another new term loan agreement with Trimaran Advisors, under which Trimaran Advisors borrowed \$4.4 million, which also bore interest at a rate of 10.5% annually, payable quarterly. During the second quarter of 2018, this loan was repaid in full by Trimaran Advisors.

On December 21, 2017, Trimaran Advisors contributed \$4.4 million of equity capital to Trimaran Risk Retention Holdings, LLC. In turn, Trimaran Risk Retention Holdings contributed \$4.4 million of equity capital to Trimaran RR II. With this equity contribution and other borrowed funds, Trimaran RR I, LLC purchased \$27.4 million notional amount of notes issued by Catamaran CLO 2015-1, Ltd. for aggregate consideration of \$27.4 million.

On June 4, 2018, Trimaran RR I, LLC sold \$31.4 million and \$24.9 million, of notional amount of notes issued by Catamaran CLO 2014-1, Ltd and Catamaran 2013-1, Ltd, respectively. In December 2018, Trimaran RR I, LLC. distributed to Trimaran \$2.5 million notional amount of subordinated notes issued by Catamaran 2013-1 with a fair value of \$1.4 million, and a notional amount of \$3.4 million of subordinated notes issued by Catamaran 2014-1 with a fair value of \$1.9 million.

7. BORROWINGS

The Company's debt obligations consist of the following:

	As of September 30, 2020 (Unaudited)	As of December 31, 2019
6.125% Notes Due 2022 (net of offering costs of: 2020-\$1,207,830; 2019 - \$1,651,946)	\$ 75,518,145	\$ 75,755,253
Great Lakes Portman Ridge Funding LLC Revolving Credit Facility (net of offering costs of: 2020-\$1,189,295; 2019 - \$1,462,364)	93,131,603	78,108,535
	<u>\$ 168,649,748</u>	<u>\$ 153,863,788</u>

The weighted average stated interest rate and weighted average maturity on all our debt outstanding as of September 30, 2020 were 4.5% and 2.7 years, respectively, and as of December 31, 2019 were 5.4% and 3.4 years, respectively.

6.125% Notes Due 2022

During the third quarter of 2017, the Company issued \$77.4 million in aggregate principal amount of unsecured 6.125% Notes due 2022 (the 6.125% Notes Due 2022). The net proceeds for these Notes, after the payment of underwriting expenses, were approximately \$74.6 million. Interest on the 6.125% Notes Due 2022 is paid quarterly in arrears on March 30, June 30, September 30 and December 30, at a rate of 6.125%. The 6.125% Notes Due 2022 mature on September 30, 2022 and are unsecured obligations of the Company. The 6.125% Notes Due 2022 are subject to redemption in whole or in part at any time or from time to time, at the option of the Company, on or after September 30, 2019, at a redemption price per security equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption. The indenture governing the 6.125% Notes Due 2022 contains certain restrictive covenants, including compliance with certain provisions of the 1940 Act related to borrowing and dividends. At September 30, 2020, the Company was in compliance with all of its debt covenants.

For the three months ended September 30, 2020 and 2019, interest expense related to the 6.125% Notes Due 2022 was approximately \$1.2 million and \$1.2 million, respectively. For the nine months ended September 30, 2020 and 2019, interest expense related to the 6.125% Notes Due 2022 was approximately \$3.5 million and \$3.6 million, respectively.

In connection with the issuance of the 6.125% Notes Due 2022, the Company incurred approximately \$2.9 million of debt offering costs which are being amortized over the expected term of the facility on an effective yield method, of which approximately \$1.2 million and \$1.7 million remains to be amortized as of September 30, 2020 and December 31, 2019, respectively, and is included on the consolidated balance sheets as a reduction in the related debt liability.

During the nine months ended September 30, 2020, the Company repurchased approximately \$681 thousand of principal amount of the 6.125% Notes Due 2022 at a cost of approximately \$513 thousand, resulting in a realized gain on extinguishment of approximately \$155 thousand. The Company subsequently surrendered these notes to the Trustee for cancellation.

Fair Value of 6.125% Notes Due 2022.

The 6.125% Notes Due 2022 were issued via public offering during the third quarter of 2017 and are carried at cost, net of offering costs of \$1.2 million and \$1.7 million at September 30, 2020 and December 31, 2019. The fair value of the Company's outstanding 6.125% Notes Due 2022 was approximately \$75.7 million and \$78.1 million at September 30, 2020 and December 31, 2019. The fair value was determined based on the closing price on September 30, 2020 for the 6.125% Notes Due 2022. The 6.125% Notes Due 2022 are categorized as Level I under the ASC 820 Fair Value.

Revolving Credit Facilities

On March 1, 2018, Great Lakes KCAP Funding I, LLC ("Funding"), our wholly owned subsidiary, entered into a senior secured revolving credit facility (the "Prior Revolving Credit Facility") with certain institutional lenders, State Bank and Trust Company, as the administrative agent, lead arranger and bookrunner, CIBC Bank USA, as documentation agent and the Company, as the servicer. The maximum commitment amount of the Prior Revolving Credit Facility was increased on March 27, 2019 to \$57.5 million, and on April 1, 2019 to \$67.5 million, subject to availability under the borrowing base. In December 2019, the Prior Revolving Credit Facility was fully repaid and the related agreements, including security interests in assets pledged as collateral, were terminated on December 23, 2019. The Company recognized a realized loss on extinguishment of debt of approximately \$1.1 million in connection with the termination of the Prior Revolving Credit Facility.

Borrowings under the Prior Revolving Credit Facility bore interest at a rate per annum equal to (i) in the case of LIBOR rate loans, an adjusted LIBOR rate for the applicable interest period plus 3.25% or (ii) in the case of base rate loans, the prime rate plus

3.25%. Funding will pay a fee on any undrawn amounts of 0.375% per annum; provided that if 50% or less of the Prior Revolving Credit Facility is drawn, the fee will be 0.50% per annum.

The Prior Revolving Credit Facility was secured by all of the assets held by Funding, and the Company had pledged its interests in Funding as collateral to State Bank and Trust Company, as the administrative agent, to secure the obligations of Funding under the Revolving Credit Facility. The Revolving Credit Agreement includes customary affirmative and negative covenants, including certain limitations on the incurrence of additional indebtedness and liens, as well as usual and customary events of default for revolving credit facilities of this nature.

For the three months ended September 30, 2019, interest and fees expense related to the Prior Revolving Credit Facility was \$0.8 million. For the nine months ended September 30, 2019, interest and fees expense related to the Prior Revolving Credit Facility was approximately \$1.7 million.

On December 18, 2019, Great Lakes Portman Ridge Funding LLC (“GLPRF LLC”), our wholly-owned subsidiary, entered into a senior secured revolving credit facility (the “Revolving Credit Facility”) with JPMorgan Chase Bank, National Association (“JPM”). JPM serves as administrative agent, U.S. Bank National Association serves as collateral agent, securities intermediary and collateral administrator, and we serve as portfolio manager under the Revolving Credit Facility.

Advances under the Revolving Credit Facility bear interest at a per annum rate equal to the three-month LIBOR in effect, plus the applicable margin of 2.85% per annum. GLPRF LLC is required to utilize a minimum of 80% of the commitments under the Revolving Credit Facility, after an initial six-month ramp-up period during which a lesser minimum utilization requirement applies. Unused amounts below such minimum utilization amount accrue interest as if such amounts are outstanding as borrowings under the Revolving Credit Facility. In addition, GLPRF LLC will pay a non-usage fee during the first three years after the closing date in an amount not to exceed 0.50% per annum on the average daily unborrowed portion of the financing commitments in excess of such minimum utilization amount.

The initial principal amount of the Revolving Credit Facility is \$115 million. The Revolving Credit Facility has an accordion feature, subject to the satisfaction of various conditions, which could bring total commitments under the Revolving Credit Facility to up to \$215 million. Proceeds from borrowings under the Revolving Credit Facility may be used to fund portfolio investments by GLPRF LLC and to make advances under delayed draw term loans where GLPRF LLC is a lender. All amounts outstanding under the Revolving Credit Facility must be repaid by the maturity date of December 18, 2023.

GLPRF LLC’s obligations to the lenders under the Revolving Credit Facility are secured by a first priority security interest in all of GLPRF LLC’s portfolio of investments and cash. The obligations of GLPRF LLC under the Revolving Credit Facility are non-recourse to us, and our exposure under the Revolving Credit Facility is limited to the value of our investment in GLPRF LLC. In connection with the Revolving Credit Facility, GLPRF LLC has made certain customary representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. The Revolving Credit Facility contains customary events of default for similar financing transactions, including if a change of control of GLPRF LLC occurs or if we are no longer the portfolio manager of GLPRF LLC.

At September 30, 2020, GLPRF LLC was in compliance with all of its debt covenants and \$94.3 million principal amount of borrowings was outstanding under the Revolving Credit Facility. The fair value of GLPRF LLC was approximately \$94.3 million at September 30, 2020. The GLPRF LLC is carried at fair value, net of offering costs of \$1.2 million at September 30, 2020. The fair value was determined based on an analysis of the value of the pledged collateral and the amount of overcollateralization supporting the repayment of these borrowings. The Revolving Credit Facility borrowings are categorized as Level III under the ASC 820 Fair Value.

For the three and nine months ended September 30, 2020 interest and fees expense related to the Revolving Credit Facility was approximately \$0.9 million and \$3.0 million, respectively.

7.375% Notes Due 2019

On October 10, 2012, the Company issued \$41.4 million in aggregate principal amount of unsecured 7.375% Notes due 2019 (the “7.375% Notes Due 2019”). The net proceeds for these Notes, after the payment of underwriting expenses, were approximately \$39.9 million. All of the 7.375% Notes Due 2019 have either been repurchased or redeemed, and retired and there have been none outstanding since the fourth quarter of 2018. Interest on the 7.375% Notes Due 2019 was paid quarterly in arrears on March 30, June 30, September 30 and December 30, at a rate of 7.375%, commencing December 30, 2012. The 7.375% Notes Due 2019 had a maturity date of September 30, 2019 and were unsecured obligations of the Company. The 7.375% Notes Due 2019 were subject to redemption in whole or in part at any time or from time to time, at the option of the Company, on or after September 30, 2015, at a redemption price per security equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption. In addition, due to the asset coverage test applicable to the Company as a BDC and a covenant that the Company agreed to in connection with the issuance of the 7.375% Notes Due 2019, the Company was limited in its ability to make distributions in certain circumstances. The indenture

governing the 7.375% Notes Due 2019 contains certain restrictive covenants, including compliance with certain provisions of the 1940 Act relating to borrowing and dividends.

During the first quarter of 2018, approximately \$20 million par value of the 7.375% Notes Due 2019 was redeemed by the Company, resulting in a realized loss on extinguishment of approximately \$169,000. The Company subsequently surrendered these notes to the Trustee for cancellation.

During the fourth quarter of 2018, all of the remaining \$7 million par value of the 7.375% Notes Due 2019 was redeemed by the Company, resulting in a realized loss on extinguishment of approximately \$28,000. The Company subsequently surrendered these notes to the Trustee for cancellation.

8. DISTRIBUTABLE TAXABLE INCOME

Effective December 11, 2006, the Company elected to be treated as a RIC under the Code and adopted a December 31 tax-calendar year end. As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed currently to its stockholders as a dividend. The Company's quarterly distributions, if any, are determined by the Board. The Company anticipates distributing substantially all of its taxable income and gains, within the Subchapter M rules, and thus the Company anticipates that it will not incur any federal or state income tax at the RIC level. As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis (e.g., calendar year 2020). Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, to the extent required. The Company may distribute taxable dividends that are payable in cash or shares of its common stock at the election of each stockholder. Under certain applicable provisions of the Code and the Treasury regulations, distributions payable in cash or in shares of stock at the election of stockholders are treated as taxable dividends. The Internal Revenue Service has published guidance indicating that this rule will apply even where the total amount of cash that may be distributed is limited to no more than 10% of the total distribution, for distributions declared on or before December 31, 2020, and after that, to no more than 20% of the total distribution. Under this guidance, if too many stockholders elect to receive their distributions in cash, the cash available for distribution must be allocated among the stockholders electing to receive cash (with the balance of the distribution paid in stock). If the Company decides to make any distributions consistent with this guidance that are payable in part in its stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend (whether received in cash, shares of the Company's stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of the Company's current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of the Company's stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, the Company may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of the Company's stockholders determine to sell shares of its stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of the Company's stock.

The following reconciles net increase in net assets resulting from operations to taxable income for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,	
	2020	2019
	(Unaudited)	
Net (decrease) increase in net assets resulting from operations	\$ (17,450,561)	\$ (16,016,674)
Net change in unrealized depreciation (appreciation) from investments	21,848,028	147,196
Net realized losses	3,665,280	16,796,465
Book/tax differences on CLO equity investments	516,284	859,602
Book/tax differences on lease impairment	—	1,431,030
Other book/tax differences	(315,116)	1,847,644
Taxable (loss) income before deductions for distributions	<u>\$ 8,263,915</u>	<u>\$ 5,065,263</u>
Taxable (loss) income before deductions for distributions per weighted average basic shares for the period	\$ 0.19	\$ 0.14
Taxable (loss) income before deductions for distributions per weighted average diluted shares for the period	\$ 0.19	\$ 0.14

Dividends from Asset Manager Affiliates are recorded based upon a quarterly estimate of tax-basis earnings and profits of each Asset Manager Affiliate. Distributions in excess of the estimated tax-basis quarterly earnings and profits of each distributing Asset Manager Affiliate are recognized as tax-basis return of capital. The actual tax-basis earnings and profits and resulting dividend and/or return of capital for the year will be determined at the end of the tax year for each distributing Asset Manager Affiliate. For the three and nine months ended September 30, 2019 the Asset Manager Affiliates did not make any cash distributions to the Company.

Distributions to shareholders that exceed tax-basis distributable income (tax-basis net investment income and realized gains, if any) are reported as distributions of paid-in capital (i.e. return of capital). The tax character of distributions is made on an annual (full calendar-year) basis. The determination of the tax attributes of our distributions is made at the end of the year based upon our taxable income for the full year and the distributions paid during the full year. Therefore, a determination of tax attributes made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year.

At September 30, 2020, the Company had a net capital loss carryforward of \$243.2 million to offset net capital gains. This net capital loss carryforward is not subject to expiration.

The Company has certain taxable subsidiaries which have elected to be taxed as corporations for U.S. tax purposes. For the nine months ended September 30, 2020, the taxable subsidiaries' activity did not result in a material provision for income taxes. As of September 30, 2020 and December 31, 2019, \$158 thousand of refundable AMT tax credits receivable was included as an asset on the consolidated balance sheets. The taxable subsidiaries have, in aggregate, approximately \$23.2 million of deferred tax assets (primarily due to net operating loss and capital loss carryovers) and approximately \$741 thousand of deferred tax liabilities (primarily due to unrealized appreciation on investments). The Company has assessed the realizability of the deferred tax assets and recorded a valuation allowance of approximately \$22.4 million. A portion of the taxable subsidiaries' net operating loss and capital loss carryovers are subject to an annual use limitation under the Code and related regulations.

ASC Topic 740 Accounting for Uncertainty in Income Taxes ("ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. The Company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management has analyzed the Company's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open tax years (the last three fiscal years) or expected to be taken in the Company's current year tax return. The Company identifies its major tax jurisdictions as U.S. Federal and New York State, and the Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof.

9. COMMITMENTS AND CONTINGENCIES

From time-to-time the Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of the Company's investment in portfolio companies. Such instruments include commitments to extend credit and may involve, in varying degrees, elements of credit risk in excess of amounts recognized on the Company's balance sheet. Prior to extending such credit, the Company attempts to limit its credit risk by conducting extensive due diligence, obtaining collateral where necessary and negotiating appropriate financial covenants. As of September 30, 2020 and December 31, 2019, the Company had \$26.5 million and \$31.9 million outstanding commitments, respectively. However, at September 30, 2020 only \$2.4 million of our Debt Securities Portfolio is subject to a unilateral draw right by the borrower and the remaining commitments are subject to certain restrictions such as borrowing base, use of proceeds or leverage that must be satisfied before a borrower can draw down on the commitment.

The Company has made an aggregate commitment to the BCP Great Lakes Partnership of \$50 million, subject to certain limitations (including that the Company is not obligated to fund capital calls if such funding would cause the Company to be out of compliance with certain provisions of the Investment Company Act of 1940). As of September 30, 2020 and December 31, 2019, the Company had a \$19.9 million and \$26.3 million, respectively unfunded commitment to the BCP Great Lakes Partnership, subject to the limitations noted above. However, at September 30, 2020 our funding commitment was limited to approximately \$4.9 million pursuant to the limitations described above.

In the fourth quarter of 2018, the Company undertook the commitments under a lease obligation for its former office space. Such obligation was previously with Katonah Debt Advisors. The lease was terminated on November 1, 2019. During 2018, the Company and the Asset Manager Affiliates shared the cost of such lease pursuant to an Overhead Allocation agreement. The Company's portion of rent expense was approximately \$138 thousand for the three months ended September 30, 2019. The Company's portion of rent expense was approximately \$491 thousand for the nine months ended September 30, 2019.

Effective January 1, 2019, the Company adopted ASU 2016-02, "Leases (Topic 842)". The right-of-use asset and lease liability related to the Company's office lease were recognized at lease commencement by calculating the present value of lease payments over

the lease term. The discount rate used in determining the lease liability was the Company's estimated incremental borrowing rate of 6.03%. In calculating the initial operating lease liability, the effect of the discounting was approximately \$626 thousand. The lease agreement had an expiration date of May 31, 2024.

During the second quarter of 2019, the Company recognized an impairment to the operating lease right-of-use asset of approximately \$1.4 million to reduce the right-of-use asset to its estimated fair market value. The remaining right of use asset will be amortized to expense in future periods as a component of Other general and administrative expenses. There was no impact to the lease liability as a result of this impairment. The impairment charge was measured using a discounted cash flow analysis and recognized in the statement of operations during the second quarter of 2019 as a result of the Company's estimated impact of entering into a sublease.

10. STOCKHOLDERS' EQUITY

The following table details the components of Stockholders' Equity for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30, 2020			
	Common Stock	Capital in Excess of Par Value	Total Distributable (loss) earnings	Total Stockholders' Equity
Balance, January 1, 2020	\$ 448,297	\$ 451,353,379	\$ (299,603,106)	\$ 152,198,570
Net investment income	—	—	2,765,790	2,765,790
Net realized (losses) from investment transactions and extinguishment of debt	—	—	(894,041)	(894,041)
Net change in unrealized appreciation on investments	—	—	(30,924,682)	(30,924,682)
Distributions to Stockholders	—	—	(2,689,779)	(2,689,779)
Reinvested Dividends	177	36,907	—	37,084
Stock-repurchase	(1,215)	(122,114)	—	(123,330)
Balance at March 31, 2020	<u>\$ 447,259</u>	<u>\$ 451,268,171</u>	<u>\$ (331,345,818)</u>	<u>\$ 120,369,612</u>
Net investment income	—	—	2,599,906	2,599,906
Net realized (losses) from investment transactions and extinguishment of debt	—	—	(881,151)	(881,151)
Net change in unrealized appreciation on investments	—	—	1,564,939	1,564,939
Distributions to Stockholders	—	—	(2,683,782)	(2,683,782)
Reinvested Dividends	232	27,894	—	28,126
Stock-repurchase	(2,539)	(281,456)	—	(283,995)
Balance, June 30, 2020	<u>\$ 444,952</u>	<u>\$ 451,014,609</u>	<u>\$ (330,745,906)</u>	<u>\$ 120,713,655</u>
Net investment income	—	—	2,697,050	2,697,050
Net realized (losses) from investment transactions and extinguishment of debt	—	—	(1,890,090)	(1,890,090)
Net change in unrealized appreciation on investments	—	—	7,511,713	7,511,713
Distributions to Stockholders	—	—	(2,669,713)	(2,669,713)
Reinvested Dividends	328	38,701	—	39,029
Stock-repurchase	(3,589)	(451,958)	—	(455,547)
Balance, September 30, 2020	<u>\$ 441,691</u>	<u>\$ 450,601,352</u>	<u>\$ (325,096,947)</u>	<u>\$ 125,946,098</u>

Nine Months Ended September 30, 2019

	Common Stock	Capital in Excess of Par Value	Total Distributable (loss) earnings	Total Stockholders' Equity
Balance, January 1, 2019	\$ 373,268	\$ 306,784,387	\$ (149,136,644)	\$ 158,021,011
Net investment loss	—	—	(2,195,187)	(2,195,187)
Net realized (losses) from investment transactions and extinguishment of debt	—	—	(13,349,430)	(13,349,430)
Net change in unrealized appreciation on investments	—	—	4,627,045	4,627,045
Distributions to Stockholders	—	—	(3,732,836)	(3,732,836)
Reinvested Dividends	155	56,334	—	56,489
Stock-based compensation	(106)	259,042	—	258,936
Balance at March 31, 2019	<u>\$ 373,317</u>	<u>\$ 307,099,763</u>	<u>\$ (163,787,052)</u>	<u>\$ 143,686,028</u>
Net investment income (loss)	—	—	879,740	879,740
Net realized (losses) from investment transactions and extinguishment of debt	—	—	(2,270,962)	(2,270,962)
Net change in unrealized appreciation on investments	—	—	542,900	542,900
Distributions to Stockholders	—	—	(3,733,415)	(3,733,415)
Reinvested Dividends	244	73,056	—	73,300
Stock-based compensation	—	—	—	—
Balance, June 30, 2019	<u>\$ 373,561</u>	<u>\$ 307,172,819</u>	<u>\$ (168,368,789)</u>	<u>\$ 139,177,591</u>
Net investment income (loss)	—	—	2,242,433	2,242,433
Net realized (losses) from investment transactions	—	—	(1,176,073)	(1,176,073)
Realized loss from extinguishment of debt	—	—	—	—
Net change in unrealized (depreciation) on investments	—	—	(5,317,142)	(5,317,142)
Distributions to Stockholders	—	—	(2,241,522)	(2,241,522)
Reinvested Dividends	158	37,567	—	37,725
Common stock withheld for payroll taxes	—	—	—	—
Stock-based compensation	—	—	—	—
Balance, September 30, 2019	<u>\$ 373,719</u>	<u>\$ 307,210,386</u>	<u>\$ (174,861,093)</u>	<u>\$ 132,723,012</u>

On March 5, 2020, the Board of Directors of the Company approved a \$10 million stock repurchase program (the “Stock Repurchase Program”). Under this repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise subject to any agreement to which we are party including any restrictions in the indenture for our 6.125% Notes Due 2022. The timing and actual number of shares repurchased will depend on a variety of factors, including legal requirements, price, and economic and market conditions. This Stock Repurchase Program may be suspended or discontinued at any time. Subject to these restrictions, we will selectively pursue opportunities to repurchase shares which are accretive to net asset value per share.

During the three and nine months ended September 30, 2020, the Company repurchased 358,959 and 734,403 shares, respectively, under the Stock Repurchase Program in open market transactions at an aggregate cost of approximately \$456 thousand and \$863 thousand, respectively.

During the three months ended September 30, 2020 and 2019, the Company issued 32,798 and 15,851 shares, respectively, of common stock under its dividend reinvestment plan. During the nine months ended September 30, 2020 and 2019, the Company issued 73,787 and 55,637 shares, respectively, of common stock under its dividend reinvestment plan. For the nine months ended September 30, 2020 and 2019, there were no grants of restricted stock. For the nine months ended September 30, 2019, 10,571 shares of restricted stock were forfeited, and 113,382 shares of restricted stock vested. The total number of shares of the Company’s common stock outstanding as of September 30, 2020 and December 31, 2019 was 44,169,060 and 44,829,676, respectively.

11. EQUITY COMPENSATION PLANS

The Company had an equity incentive plan, established in 2006 and most recently amended, following approval by the Company’s Board and shareholders, on May 4, 2017 (the “Equity Incentive Plan”). The Company reserved 2,000,000 shares of common stock for issuance under the Equity Incentive Plan. In connection with the Closing, the Company terminated the Equity Incentive Plan and will no longer make grants pursuant to the plan. Prior to the Closing, restricted stock granted under the Equity Incentive Plan was granted at a price equal to the fair market value (market closing price) of the shares on the day such restricted stock is granted. Options granted under the Equity Incentive Plan were exercisable at a price equal to the fair market value (market closing price) of the shares on the day the option is granted.

Stock Options

The 2008 Non-Employee Director Plan was originally adopted by the Board and was approved by a vote of the Company’s shareholders at the 2008 Annual Shareholder Meeting (the “2008 Plan”). Effective June 10, 2011, the 2008 Plan was amended and restated in accordance with a resolution of the Board and approved by a vote of the Company’s shareholders at the 2011 Annual Shareholder Meeting (the “2011 Plan”). Effective May 4, 2017, the 2011 Plan was amended and restated in accordance with a resolution of the Board and approved by the Company’s shareholders at the 2017 Annual Shareholder Meeting (the “Non-Employee Director Plan”). In connection with the Closing, the Company terminated the 2008 Plan and will no longer make grants pursuant to the plan.

Immediately prior to the Closing, by virtue of the Externalization and subject to the execution of an option cancellation agreement, each option to purchase shares of the Company's common stock granted under the 2008 Plan that was outstanding immediately prior to the Externalization was cancelled in exchange for a payment in cash to the holder thereof.

Information with respect to options granted, exercised and forfeited under the Equity Incentive Plan for the period January 1, 2019 through September 30, 2019 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Remaining Term (years)	Aggregate Intrinsic Value ¹
Options outstanding at January 1, 2019	30,000	\$ 4.88	0.9	\$ —
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Cancelled	(30,000)	4.88	0.6	
Outstanding at September 30, 2019	—	\$ —	—	\$ —
Total vested at September 30, 2019	—	\$ —	—	

¹ Represents the difference between the market value of shares of the Company on March 31, 2019 and the exercise price of the options.

The Company uses a Binary Option Pricing Model (American, call option) to establish the expected value of all stock option grants. For the three months ended March 31, 2019, the Company did not recognize any non-cash compensation expense related to stock options. At September 30, 2020, the Company had no remaining compensation costs related to unvested stock based awards.

Restricted Stock

Awards of restricted stock granted under the Non-Employee Director Plan vest as follows: 50% of the shares vest on the grant date and the remaining 50% of the shares vest on the earlier of:

- (i) the first anniversary of such grant, or
- (ii) the date immediately preceding the next annual meeting of shareholders.

On May 3, 2018, 6,000 shares of restricted stock were awarded to the Company's Board.

Immediately prior to the Closing all restrictions with respect to 3,000 shares of restricted stock outstanding and not previously forfeited under the Non-Employee Director Plan lapsed, and the holders of such restricted stock became entitled to receive a pro rata share of the payment due to stockholders of the Company pursuant to the Externalization Agreement.

On June 16, 2015, the Company received exemptive relief to repurchase shares of its common stock from its employees in connection with certain equity compensation plan arrangements. During the year ended December 31, 2018, the Company repurchased 26,681 shares, of common stock at an aggregate cost of approximately \$86,000, in connection with the vesting of employee's restricted stock, which is reflected as a reduction in Stockholders' Equity at cost. These shares are not available to be reissued under the Company's Equity Incentive Plan.

On June 23, 2015, the Company's Board approved the grant of 190,166 shares, with a fair value of approximately \$1.2 million, of restricted stock to the employees of the Company as partial compensation for their services. 25% of such awards will vest on each of the first four anniversaries of the grant date.

On September 19, 2017, the Company's Board approved the grant of 133,620 shares of restricted stock to the employees of the Company as partial compensation for their services. 50% of such awards were scheduled to vest on the third anniversary of the grant date and the remaining 50% of the shares were scheduled to vest on the fourth anniversary of the grant date.

Immediately prior to the Closing, 110,382 shares of restricted stock outstanding and not previously forfeited under the Equity Incentive Plan and the 2008 Plan (as defined below) became fully vested, all restrictions with respect to such restricted stock lapsed, and the holders of such restricted stock became entitled to receive a pro rata share of the payment due to stockholders of the Company pursuant to the Externalization Agreement.

Information with respect to restricted stock granted, exercised and forfeited under the Plan for the period January 1, 2019 through September 30, 2019 is as follows:

	Non-vested Restricted Shares
Non-vested shares outstanding at January 1, 2019	123,953
Granted	—
Vested	(113,382)
Forfeited	(10,571)
Non-Vested Outstanding at September 30, 2019	—

For the three and nine months ended September 30, 2019, non-cash compensation expense related to restricted stock was approximately \$0 and \$259,000.

Distributions are paid on all outstanding shares of restricted stock, whether or not vested. In general, shares of unvested restricted stock were forfeited upon the recipient's termination of employment.

12. OTHER EMPLOYEE COMPENSATION

The Company adopted a 401(k) plan ("401K Plan") effective January 1, 2007. The 401K Plan was open to all full-time employees. The 401K Plan permits an employee to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. The Company made contributions to the 401K Plan of up to 2% of the Internal Revenue Service's annual maximum eligible compensation, which fully vests at the time of contribution. Approximately \$9,000 was expensed during the three and nine months ended September 30, 2019, respectively, related to the 401K Plan. This Plan was terminated effective March 31, 2019.

The Company also adopted a deferred compensation plan ("Profit-Sharing Plan") effective January 1, 2007. Employees are eligible for the Profit-Sharing Plan provided that they are employed and working with the Company to participate in at least 100 days during the year and remain employed as of the last day of the year. Employees do not make contributions to the Profit-Sharing Plan. On behalf of the employee, the Company may contribute to the Profit-Sharing Plan 1) up to 8.0% of all compensation up to the Internal Revenue Service annual maximum and 2) up to 5.7% excess contributions on any incremental amounts above the social security wage base limitation and up to the Internal Revenue Service annual maximum. Employees vest 100% in the Profit-Sharing Plan after five years of service. This Plan was terminated effective March 31, 2019, and no expense was recognized during the three and nine months ended September 30, 2019.

13. ACQUISITION OF OHA INVESTMENT CORPORATION

On December 18, 2019, we completed our acquisition of OHA Investment Corporation ("OHAI"). In accordance with the terms of the merger agreement, each share of common stock, par value \$0.001 per share, of OHAI (the "OHAI Common Stock") issued and outstanding was converted into the right to receive (i) an amount in cash, without interest, equal to approximately \$0.42, and (ii) 0.3688 shares of common stock, par value \$0.01 per share, of the Company (plus any applicable cash in lieu of fractional shares). Each share of OHAI Common Stock issued and outstanding received, as additional consideration funded by Sierra Crest, an amount in cash, without interest, equal to approximately \$0.15. As a result of the Merger, the Company issued an aggregate of 7,439,559 shares of its common stock to former OHAI stockholders (approximately 16.6% of the Company's outstanding shares at December 31, 2019).

Pursuant to the merger agreement, if at any time within one year after the closing date of the transaction our common stock is trading at a price below 75% of its net asset value, we will initiate a share buyback program of up to \$10 million to support the trading price of the combined entity for up to one year from the date such program is announced.

The merger was accounted for in accordance with the asset acquisition method of accounting as detailed in ASC Topic 805-50. The fair value of the consideration paid, and transaction costs incurred to complete the merger by the Company, including \$3.0 million of cash payment (deemed capital contribution) paid at closing directly to shareholders of OHAI from Sierra Crest and LibreMax, was allocated to the OHAI investments acquired, based on their relative fair values as of the date of acquisition. The fair value of the purchase consideration paid by the Company below the fair value of net assets acquired is considered the purchase discount. Immediately following the acquisition of OHAI, the Company recorded OHAI's net assets at their respective fair values and, as a result, the purchase discount was allocated to the cost basis of the OHAI investments acquired and was immediately recognized as unrealized gain on the Company's Consolidated Statement of Operations. The purchase discount was allocated to the acquired investments on a relative fair value basis and, for performing debt investments, will amortize over the life of the investments through interest income with a corresponding reversal of the unrealized appreciation on the OHAI investments acquired through their maturity. Upon the sale of any of the OHAI acquired investments, the Company will recognize a realized gain or a reduction in realized losses with a corresponding reversal of the unrealized losses.

Common stock issued by the Company (1)	\$	15,548,678
Cash consideration to OHAI shareholders (2)		11,510,688
Transaction costs (excluding offering costs \$385,747)		851,807
Total purchase consideration		<u>27,911,173</u>
Assets acquired:		
Investments, at fair value (amortized cost of \$54,123,811)		60,547,193
Cash		232,708
Interest receivable		592,329
Other assets		482,454
Total assets acquired		<u>61,854,684</u>
Liabilities assumed:		
Debt		27,394,083
Other liabilities		126,046
Total liabilities assumed		<u>27,520,129</u>
Net assets acquired		<u>34,334,555</u>
Total purchase discount	\$	<u>(6,423,382)</u>

- (1) Based on the market price at closing of \$2.09 as of December 18, 2019 and the 7,439,559 shares of common stock issued by the Company in conjunction with the merger.
- (2) Approximately \$8.5 million cash consideration paid by the Company plus \$3.0 million cash payment paid at closing directly to shareholders of OHAI from Sierra Crest and LibreMax.

14. SUBSEQUENT EVENTS

On October 16, 2020, the Board of Directors of the Company declared a cash distribution of \$0.06 per share of common stock, consistent with the current dividend policy. The distribution is payable on November 27, 2020 to shareholders of record at the close of business as of October 26, 2020.

On October 28, 2020 the Company completed the GARS Acquisition, pursuant to the terms and conditions of the GARS Merger Agreement. To effect the acquisition, a wholly owned merger subsidiary of the Company merged with and into GARS, with GARS surviving the merger as the Company's wholly owned subsidiary. Immediately thereafter and as a single integrated transaction, GARS consummated a second merger, whereby GARS merged with and into the Company, with the Company surviving the merger. Under the terms of the GARS Merger Agreement, each share of GARS Common Stock issued and outstanding was converted into the right to receive (i) an amount in cash, without interest, equal to approximately \$1.19 and (ii) approximately 1.917 shares of common stock, par value \$0.01 per share, of the Company (plus any applicable cash in lieu of fractional shares). Each share of GARS Common Stock issued and outstanding received, as additional consideration funded by the Adviser, an amount in cash, without interest, equal to approximately \$0.31.

On October, 26, 2020, the Board unanimously expanded the size of the Board from 7 to 9 members and, pursuant to the terms of the GARS Merger Agreement, Matthew Westwood and Joseph Morea (each of whom previously served as a member of the board of directors of GARS) were appointed to the Board to fill the vacancies created by such expansion, with each to hold office until his

successor is elected and qualified, effective as of immediately after the closing of the transactions contemplated by the GARS Merger Agreement.

The Company has evaluated events and transactions occurring subsequent to September 30, 2020 for items that should potentially be recognized or disclosed in these financial statements. Other than as described above, management has determined that there are no other material subsequent events that would require adjustment to, or disclosure in, these consolidated financial statements.

The following discussion and analysis should be read in conjunction with our condensed and consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including but not limited to those described in Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2019 and Part II, Item 1A of this Form 10-Q of this Quarterly Report. Our actual results could differ materially from those anticipated by such forward-looking statements due to factors discussed under the "Risk Factors" section included in our SEC filings and "Note About Forward-Looking Statements" appearing elsewhere in this Form 10-Q.

GENERAL

We are an externally managed, non-diversified closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. Sierra Crest Investment Management LLC (the "Adviser") is an affiliate of BC Partners LLP, ("BC Partners") and LibreMax Intermediate Holdings, LP ("LibreMax") owns a minority stake in the Adviser. Subject to the overall supervision of the Board, the Adviser is responsible for managing our business and activities, including sourcing investment opportunities, conducting research, performing diligence on potential investments, structuring our investments, and monitoring our portfolio companies on an ongoing basis through a team of investment professionals.

The Adviser seeks to invest on our behalf in performing, well-established middle market businesses that operate across a wide range of industries (i.e., no concentration in any one industry). The Adviser employs fundamental credit analysis, targeting investments in businesses with relatively low levels of cyclical and operating risk. The holding size of each position will generally be dependent upon a number of factors including total facility size, pricing and structure, and the number of other lenders in the facility. The Adviser has experience managing levered vehicles, both public and private, and seeks to enhance our returns through the use of leverage with a prudent approach that prioritizes capital preservation. The Adviser believes this strategy and approach offers attractive risk/return with lower volatility given the potential for fewer defaults and greater resilience through market cycles.

We originate, structure, and invest in secured term loans, bonds or notes and mezzanine debt primarily in privately-held middle market companies but may also invest in other investments such as loans to publicly-traded companies, high-yield bonds, and distressed debt securities (collectively the "Debt Securities Portfolio"). We also invest in joint ventures and debt and subordinated securities issued by collateralized loan obligation funds ("CLO Fund Securities"). In addition, from time to time we may invest in the equity securities of privately held middle market companies and may also receive warrants or options to purchase common stock in connection with our debt investments.

In our Debt Securities Portfolio, our investment objective is to generate current income and, to a lesser extent, capital appreciation from the investments in senior secured term loans, mezzanine debt and selected equity investments in privately-held middle market companies. We define the middle market as comprising companies with EBITDA of \$10 million to \$50 million and/or total debt of \$25 million to \$150 million. We primarily invest in first and second lien term loans which, because of their priority in a company's capital structure, we expect will have lower default rates and higher rates of recovery of principal if there is a default and which we expect will create a stable stream of interest income. The investments in our Debt Securities Portfolio are all or predominantly below investment grade, and have speculative characteristics with respect to the issuer's capacity to pay interest and repay principal.

Our investments in CLO Fund Securities are primarily managed by our formerly wholly-owned asset management subsidiaries Trimaran Advisors and Trimaran Advisors Management, L.L.C. From time-to-time we have also made investments in CLO Fund Securities managed by other asset managers. Our collateralized loan obligation funds ("CLO Funds") typically invest in broadly syndicated loans, high-yield bonds and other credit instruments.

We have elected to be treated for U.S. federal income tax purposes as a RIC under the Code and intend to operate in a manner to maintain our RIC status. As a RIC, we intend to distribute to our stockholders substantially all of our net ordinary taxable income and the excess of realized net short-term capital gains over realized net long-term capital losses, if any, for each year. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. Pursuant to this election, we generally will not have to pay corporate-level U.S. federal income taxes on any income that we timely distribute to our stockholders. Depending on the duration of the novel coronavirus (also known as “COVID-19”) pandemic and the extent of its impact on our portfolio companies’ operations and our net investment income, any future distributions to our stockholders may be for amounts less than our historical distributions, may be made less frequently than historical practices, and may be made in part cash and part stock, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 10% of the total distribution, for distributions declared on or before December 31, 2020, and after that, at least 20% of the aggregate declared distribution.

From time to time, we may seek to retire, repurchase, or exchange debt securities in open market purchases or by other means dependent on market conditions, liquidity, contractual obligations, and other matters. In addition, we evaluate strategic opportunities available to us, including mergers, divestitures, spin-offs, joint ventures and other similar transactions from time to time.

The Externalization Agreement

On April 1, 2019 (the “Closing”), we became externally managed (the “Externalization”) by the Adviser, pursuant to a stock purchase and transaction agreement (the “Externalization Agreement”) with BC Partners Advisors L.P. (“BCP”), an affiliate of BC Partners. In connection with the Externalization, our stockholders approved an investment advisory agreement (the “Advisory Agreement”) with the Adviser.

Pursuant to the Externalization Agreement with BCP, the Adviser became our investment adviser in exchange for a cash payment from BCP, or its affiliate, of \$25 million, or \$0.669672 per share of our common stock, directly to our stockholders. In addition, the Adviser (or its affiliate) will use up to \$10 million of the incentive fee actually paid to the Adviser prior to the second anniversary of the Closing to buy newly issued shares of our common stock at the most recently determined net asset value per share of our common stock at the time of such purchase. For the period of one year from the first day of the first quarter following the quarter in which the Closing occurred, the Adviser will permanently forego up to the full amount of the incentive fees earned by the Adviser without recourse against or reimbursement by us, to the extent necessary in order to achieve aggregate net investment income per share of common stock for such one-year period to be at least equal to \$0.40 per share, subject to certain adjustments. BCP and the Adviser’s total financial commitment to the transactions contemplated by the Externalization Agreement was \$35.0 million.

On the date of the Closing, we changed our name from KCAP Financial, Inc. to Portman Ridge Finance Corporation and on April 2, 2019, began trading on the NASDAQ Global Select Market under the symbol “PTMN.”

OHAI Transaction

On December 18, 2019, we completed our acquisition of OHA Investment Corporation (“OHAI”). In accordance with the terms of the merger agreement, each share of common stock, par value \$0.001 per share, of OHAI (the “OHAI Common Stock”) issued and outstanding was converted into the right to receive (i) an amount in cash, without interest, equal to approximately \$0.42, and (ii) 0.3688 shares of common stock, par value \$0.01 per share, of the Company (plus any applicable cash in lieu of fractional shares). Each share of OHAI Common Stock issued and outstanding received, as additional consideration funded by Sierra Crest, an amount in cash, without interest, equal to approximately \$0.15. As a result of the merger, we issued an aggregate of 7,439,559 shares of our common stock to former OHAI stockholders (approximately 16.6% of the Company’s outstanding shares at December 31, 2019).

Pursuant to the merger agreement, if at any time within one year after the closing date of the transaction our common stock is trading at a price below 75% of its net asset value, we will initiate an open-market stock repurchase of up to \$10 million to support the trading price of the combined entity for up to one year from the date such program is announced. Our board approved a repurchase program on March 5, 2020. See “Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.”

The merger was accounted for in accordance with the asset acquisition method of accounting as detailed in ASC Topic 805-50. The fair value of the consideration paid, and transaction costs incurred to complete the merger by the Company, including \$3.0 million of cash payment (deemed capital contribution) paid at closing directly to shareholders of OHAI from Sierra Crest and LibreMax, was allocated to the OHAI investments acquired, based on their relative fair values as of the date of acquisition. Immediately following the acquisition of OHAI, we recorded OHAI's net assets at their respective fair values and, as a result, the purchase discount was allocated to the cost basis of the OHAI investments acquired and was immediately recognized as unrealized gain on our Consolidated Statement of Operations. The purchase discount was allocated to the acquired investments on a relative fair value basis and, for debt securities, will generally amortize over the life of the investments through interest income with a corresponding reversal of the unrealized appreciation on the OHAI investments acquired through their maturity. Upon the sale of any of the OHAI acquired investments, we will recognize a realized gain or a reduction in realized losses with a corresponding reversal of the unrealized losses.

Common stock issued by the Company (1)	\$	15,548,678
Cash consideration to OHAI shareholders (2)		11,510,688
Transaction costs (excluding offering costs \$385,747)		851,807
Total purchase consideration		<u>27,911,173</u>
Assets acquired:		
Investments, at fair value (amortized cost of \$54,123,811)		60,547,193
Cash		232,708
Interest receivable		592,329
Other assets		482,454
Total assets acquired		<u>61,854,684</u>
Liabilities assumed:		
Debt		27,394,083
Other liabilities		126,046
Total liabilities assumed		<u>27,520,129</u>
Net assets acquired		<u>34,334,555</u>
Total purchase discount	\$	<u>(6,423,382)</u>

(1) Based on the market price at closing of \$2.09 as of December 18, 2019 and the 7,439,559 shares of common stock issued by the Company in conjunction with the merger.

(2) Approximately \$8.5 million cash consideration paid by the Company plus \$3.0 million cash payment paid at closing directly to shareholders of OHAI from Sierra Crest and LibreMax.

COVID-19 Developments

The spread of the novel coronavirus and the COVID-19 pandemic, and the related effect on the U.S. and global economies, has had adverse consequences for the business operations of some of our portfolio companies and has adversely affected, and threatens to continue to adversely affect, our operations and the operations of the Adviser. The Adviser has taken proactive steps around COVID-19 to address the potential impacts on its employees and clients, including shifting to a 100% remote-working model. While we have been carefully monitoring the COVID-19 pandemic and its impact on our business and the businesses of our portfolio companies, we have continued to fund our existing debt commitments and underwrite both follow-on investments in existing borrowers and investments in new borrowers.

We cannot predict the full impact of the COVID-19 pandemic, including its duration in the United States and worldwide and the magnitude of the economic impact of the outbreak, including with respect to the travel restrictions, business closures and other quarantine measures imposed on service providers and other individuals by various local, state, and federal governmental authorities, as well as non-U.S. governmental authorities. As such, we are unable to predict the duration of any business and supply-chain disruptions, the extent to which COVID-19 will negatively affect our portfolio companies' operating results or the impact that such disruptions may have on our results of operations and financial condition. Depending on the duration and extent of the disruption to the operations of our portfolio companies, we expect that certain portfolio companies will experience financial distress and possibly default on their financial obligations to us and their other capital providers. It is possible that some of our portfolio companies may significantly curtail business operations, furlough or lay off employees and terminate service providers, and defer capital expenditures if subjected to prolonged and severe financial distress, which would likely impair their business on a permanent basis. These developments would likely result in a decrease in the value of our investment in any such portfolio company.

In this regard, the pandemic and the resulting economic dislocations have had adverse consequences for the business operations of some of the Company's portfolio companies and CLO Fund investments and have adversely affected, and threaten to continue to adversely affect, the Company's operations, particularly with respect to interest income received from our investments. We may need

to restructure our investments in some of our portfolio companies, which could result in reduced interest payments, an increase in the amount of payment-in-kind (“PIK”) interest we receive, or result in permanent impairments on our investments.

In the event that a CLO Fund fails certain tests, holders of debt senior to us may be entitled to additional payments that would, in turn, reduce the payments we would otherwise be entitled to receive. In this regard, during the second quarter of 2020, the Company was notified that four of the Catamaran CLO Funds breached certain covenants contained in their respective indentures, and as a result, available cash within the CLO Fund will be diverted away from the subordinated notes owned by the Company and will be applied to more senior noteholders in the capital structure of the CLO Fund. The estimated timing and amount of future distributions, if any, from these CLO Fund Securities is uncertain. It is also possible, based upon current economic conditions resulting from the COVID-19 pandemic, that additional CLO Fund Securities owned by the Company, and including the subordinated securities issued by Great Lakes KCAP F3C Senior LLC CLO, which are owned by the KCAP Freedom 3 Joint Venture, could also cease making distributions to the Company. Separately, the Company may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting CLO Fund or any other investment we may make. If any of these occur, it could materially and adversely affect our operating results and cash flows.

We have had a significant reduction in our net asset value since December 31, 2019 which is primarily the result of the impact of the COVID-19 pandemic. The decrease in net asset value as of September 30, 2020 primarily resulted from an increase in the aggregate unrealized depreciation of our investment portfolio resulting from decreases in the fair value of some of our portfolio company investments primarily due to the immediate adverse economic effects of the COVID-19 pandemic and the continuing uncertainty surrounding its long-term impact, as well as the re-pricing of credit risk in the market.

We are permitted under the 1940 Act, as a BDC, to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 150% after such borrowing. In addition, our and our wholly-owned subsidiary’s outstanding borrowings contain affirmative and negative covenants, including, in the case of us, compliance with certain provisions of the 1940 Act relating to borrowing and dividends, and events of default. As of September 30, 2020, we were in compliance with our asset coverage requirements under the 1940 Act and we and our wholly-owned subsidiary were in compliance with all of the covenants pertaining to all of our borrowings. However, any continued increase in unrealized depreciation of our investment portfolio or further significant reductions in our net asset value as a result of the effects of the COVID-19 pandemic increases the risk of breaching the relevant covenants. If we or our wholly-owned subsidiary fail to satisfy the respective covenants of our borrowings, or are unable to cure any event of default or obtain a waiver, it could result in foreclosure under the borrowing arrangement, which would accelerate our repayment obligations under the borrowing arrangement and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders. See “Item 1A - “Risk Factors - Risks Relating to our Business and Structure”” included in our most recent Annual Report on Form 10-K and the other risk factors contained therein and in our subsequent filings with the SEC, including this Quarterly Report on Form 10-Q.

Merger with Garrison Capital Inc.

On June 24, 2020, the Company entered into a merger agreement (the “GARS Merger Agreement”) with Garrison Capital Inc., a publicly traded BDC (“GARS”), the Adviser and a wholly-owned merger subsidiary of the Company (such transaction, the “GARS Acquisition”). The board of directors of both companies each unanimously approved the GARS Acquisition and on October 19, 2020 GARS’s stockholders approved the merger and our stockholders approved the issuance of shares of our common stock to GARS’s stockholders. The GARS Acquisition closed on October 28, 2020. See “Recent Developments” for more information on the GARS Acquisition.

PORTFOLIO AND INVESTMENT ACTIVITY

Our primary investments are lending to and investing in middle-market businesses through investments in senior secured loans, junior secured loans, subordinated/mezzanine debt investments, and other equity investments, which may include warrants, investments in joint ventures, and investments in CLO Fund Securities.

Total portfolio investment activity (excluding activity in short-term investments) for the nine months ended September 30, 2020 (unaudited) and for the year ended December 31, 2019 was as follows:

	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliates	Joint Ventures	Derivatives	Total Portfolio
Fair Value at December 31, 2018							
2019 Activity:							
Purchases / originations / draws	\$ 147,861,744	\$ 44,325,000	\$ 2,038,020	\$ 3,470,000	\$ 30,857,107	\$ —	\$ 228,551,871
Pay-downs / pay-offs / sales	164,680,210	—	14,966,500	—	15,857,536	30,609	195,534,855
Net accretion of interest	(123,783,352)	(13,629,382)	(371,222)	—	(4,644,523)	—	(142,428,478)
Net realized gains (losses)	366,805	6,162,690	—	—	—	—	6,529,495
Increase (decrease) in fair value	(8,841,780)	(1,395,218)	(1,912,048)	(3,470,000)	—	—	(15,619,046)
Fair Value at December 31, 2019	6,519,282	(3,494,888)	(4,856,831)	—	3,017,847	(64,046)	1,121,364
2020 Activity:							
Purchases / originations / draws	186,802,908	31,968,202	9,864,419	—	45,087,967	(33,437)	273,690,061
Pay-downs / pay-offs / sales	89,033,939	—	1,285,833	—	11,132,725	—	101,452,497
Net accretion of interest	(65,660,739)	(3,257,187)	(669,215)	—	(4,734,718)	(976,968)	(75,298,827)
Net realized gains (losses)	1,942,959	2,740,902	—	—	—	—	4,683,861
Increase (decrease) in fair value	(3,607,532)	—	(1,189,287)	—	—	976,968	(3,819,851)
Fair Value at September 30, 2020	(3,945,277)	(12,660,052)	411,276	—	(4,654,363)	(999,612)	(21,848,028)
Fair Value at September 30, 2020	\$ 204,566,258	\$ 18,791,865	\$ 9,703,027	\$ —	\$ 46,831,611	\$ (1,033,048)	\$ 278,859,713

The level of investment activity for investments funded and principal repayments for our investments can vary substantially from period to period depending on the number and size of investments that we invest in or divest of, and many other factors, including the amount and competition for the debt and equity securities available to middle market companies, the level of merger and acquisition activity for such companies and the general economic environment.

The following table shows the Company's portfolio by security type at September 30, 2020 and December 31, 2019:

Security Type	September 30, 2020 (Unaudited)			December 31, 2019		
	Cost/Amortized		%	Cost/Amortized		%
	Cost	Fair Value		Cost	Fair Value	
Short-term investments ²	\$ 10,219,782	\$ 10,219,782	4	\$ 4,207,107	\$ 4,207,107	2
Senior Secured Loan	125,335,848	124,413,259	43	91,245,574	88,788,639	32
Junior Secured Loan	90,438,997	79,851,015	28	100,655,341	95,188,373	34
Senior Unsecured Bond	620,145	301,984	0	620,145	403,615	—
Subordinated Note	—	—	—	2,165,304	2,422,281	1
CLO Fund Securities	46,102,433	18,791,865	7	46,618,717	31,968,202	12
Equity Securities	21,588,325	9,703,027	3	22,160,993	9,864,419	4
Asset Manager Affiliates ³	17,791,230	—	—	17,791,230	—	—
Joint Ventures	54,992,546	46,831,611	16	48,594,539	45,087,967	16
Derivatives	30,609	(1,033,048)	(0)	30,609	(33,437)	—
Total	\$ 367,119,915	\$ 289,079,495	100%	\$ 334,089,559	\$ 277,897,166	100%

¹ Represents percentage of total portfolio at fair value.

² Includes money market accounts and U.S. treasury bills.

³ Represents the equity investment in the Asset Manager Affiliates.

The industry concentrations, based on the fair value of the Company's investment portfolio as of September 30, 2020 and December 31, 2019, were as follows:

Industry Classification	September 30, 2020 (Unaudited)				December 31, 2019			
	Cost/Amortized		%	Cost/Amortized		%		
	Cost	Fair Value		Cost	Fair Value			
Aerospace and Defense	\$ 11,086,558	\$ 10,968,006	4	\$ 15,706,988	\$ 16,342,388	6		
Asset Management Company ²	17,791,230	-	-	17,791,230	-	-		
Automotive	5,489,838	5,365,075	2	5,504,508	5,541,823	2		
Banking, Finance, Insurance & Real Estate	6,544,615	5,373,704	2	4,679,345	4,554,055	2		
Beverage, Food and Tobacco	4,332,793	3,813,344	1	7,899,181	7,750,305	3		
Capital Equipment	10,275,176	7,470,650	3	7,450,117	6,453,900	2		
Chemicals, Plastics & Rubber	3,247,453	3,312,838	1	345,833	389,320	-		
CLO Fund Securities	46,102,433	18,791,865	7	46,618,717	31,968,202	12		
Consumer goods: Durable	6,107,095	5,061,758	2	3,413,107	2,558,619	1		
Containers, Packaging and Glass	2,813,322	2,511,372	1	2,831,640	2,616,480	1		
Electronics	12,741,666	13,122,150	5	12,511,345	13,636,090	5		
Energy: Oil & Gas	10,735,186	3,337,511	1	12,522,303	4,919,950	2		
Environmental Industries	3,954,140	3,601,839	1	3,998,816	3,924,947	1		
Forest Products & Paper	1,575,119	1,244,480	0	1,570,609	1,534,240	1		
Healthcare, Education and Childcare	13,919,257	13,068,713	5	9,353,548	9,136,345	3		
Healthcare & Pharmaceuticals	51,378,854	44,449,977	15	42,461,467	33,637,136	12		
High Tech Industries	17,211,273	16,404,753	6	18,816,125	17,481,155	6		
Joint Ventures	54,992,546	46,831,611	16	48,594,539	45,087,967	16		
Media: Broadcasting & Subscription	4,166,658	4,202,371	1	4,614,647	4,567,266	2		
Media: Diversified & Production	2,729,186	2,584,357	1	2,886,325	2,887,230	1		
Metals & Mining	1,209,583	1,205,169	0	1,180,977	1,319,500	0		
Personal, Food and Miscellaneous Services	-	-	-	2,534,318	2,829,436	1		
Services: Business	38,830,024	37,656,325	13	22,726,850	21,415,794	8		
Services: Consumer	4,308,990	4,193,044	1	4,512,488	4,493,529	2		
Telecommunication	6,321,342	6,037,400	2	8,751,454	8,164,050	3		
Textiles and Leather	12,408,779	11,382,280	4	12,389,673	12,180,290	4		
Money Market Accounts	10,219,782	10,219,782	4	4,207,107	4,207,107	2		
Transportation: Cargo	6,627,019	6,869,121	2	8,216,303	8,300,043	3		
Total	\$ 367,119,915	\$ 289,079,495	100%	\$ 334,089,559	\$ 277,897,166	100%		

¹ Calculated as a percentage of total portfolio at fair value.

² Represents the equity investment in the Asset Manager Affiliates.

Debt Securities Portfolio

At September 30, 2020 and December 31, 2019, the weighted average contractual interest rate on our loans and debt securities was approximately 8.3% and 10.9%, respectively. At September 30, 2020 and December 31, 2019, the weighted average contractual interest rate on our loans and debt securities, excluding non-accrual and partial non-accrual investments, and excluding CLO Fund Securities and Joint Ventures, was approximately 7.9% and 9.0%, respectively.

The investment portfolio (excluding our investments in the CLO Funds, Joint Ventures and short-term investments) at September 30, 2020 was spread across 23 different industries and 65 different entities with an average par balance per entity of approximately \$3.5 million. As of September 30, 2020, eight of our investments were on non-accrual status. As of December 31, 2019, seven of our investments were on non-accrual status.

We may invest up to 30% of our investment portfolio in “non-qualifying” opportunistic investments such as high-yield bonds, debt and equity securities of CLO Funds, foreign investments, joint ventures, managed funds, partnerships and distressed debt or equity securities of large cap public companies. At September 30, 2020 and December 31, 2019, the total amount of non-qualifying assets to total assets was approximately 22.7% and 25.3%, respectively. The majority of non-qualifying assets were foreign investments which were approximately 7.0% and 10.6%, respectively, of our total assets (including our investments in CLO Funds, which are typically domiciled outside the U.S. and represented approximately 6.3% and 10.6% of its total assets, respectively). The investments in our Debt Securities Portfolio are all or predominantly below investment grade, and therefore have speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal.

Asset Manager Affiliates

The Disposed Manager Affiliates manage CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. The CLO Funds managed by the Disposed Asset Manager Affiliates consist primarily of credit instruments issued by corporations. In connection with the LibreMax Transaction, on December 31, 2018, our wholly-owned subsidiary Commodore Holdings, LLC sold the Disposed Manager Affiliates, which represented substantially all of our investment in the Asset Manager Affiliates, to LibreMax for a cash purchase price of approximately \$37.9 million. Accordingly, certain CLO Fund investments were reclassified from CLO Funds managed by affiliates to CLO funds managed by non-affiliates on December 31, 2018. Effective April 1, 2019, as a result of the Externalization and related transactions, CLO Fund investments managed by LibreMax were assigned to CLO Funds managed by affiliates. As of September 30, 2020, our Asset Manager Affiliates had approximately \$300 million of par value of assets under management, for which management fees were waived and thus were deemed to have no value.

In connection with the Externalization, during the first quarter of 2019, KCAP Management agreed to waive management fees it is otherwise entitled to receive for managing the Fund. In addition, the Joint Venture was restructured such that we are now entitled to receive a preferred distribution in an amount equal to the fees waived by KCAP Management. The impact of these transactions was a reduction in the fair value of the Asset Manager Affiliates (realized loss) and increase the fair value of our investment in the Joint Venture (unrealized gain) during the first quarter of 2019.

Although the investment in the Asset Manager Affiliates is deemed to have no value at September 30, 2020 and December 31, 2019, certain of these subsidiaries continue to exist as a legal matter and until such entities are formally dissolved, the Company will continue to report the cost basis of its investment in the Asset Manager Affiliates in its financial statements. Upon the final disposition of these entities, the Company expects to write off any remaining cost basis, which will result in a reclassification in the statement of operations between realized and unrealized gains and losses.

CLO Fund Securities

We have made minority investments in the subordinated securities or preferred shares of CLO Funds managed by the Disposed Manager Affiliates and may selectively invest in securities issued by CLO Funds managed by other asset management companies. As of September 30, 2020 and December 31, 2019, we had approximately \$18.8 million and \$32.0 million, respectively, invested in CLO Fund Securities, issued primarily by CLO Funds managed by the Disposed Manager Affiliates.

The CLO Funds invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Fund Securities in which we have an investment are generally diversified secured or unsecured corporate debt.

The structure of CLO Funds, which are highly levered, is extremely complicated. Since we primarily invest in securities representing the residual interests of CLO Funds, our investments are much riskier than the risk profile of the loans by which such CLO Funds are collateralized. Our investments in CLO Funds may be riskier and less transparent to us and our stockholders than direct investments in the underlying loans. The CLO Funds in which we invest have debt that ranks senior to our investment. Our CLO Fund investments are generally thinly traded or have only a limited trading market. CLO Funds are typically privately offered and sold, even in the secondary market. As a result, investments in CLO Funds may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLO Funds carry additional risks, including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the fact that the Company’s investments in CLO tranches will likely be subordinate to other senior classes of note tranches thereof; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO Fund or unexpected investment results. The Company’s net asset value may also decline over time if the Company’s principal recovery with respect to CLO subordinated note investments is less than the price that the Company paid for those investments. For a more detailed discussion of the risks related to our investments in CLO Funds, please see “Risk Factors — Risks Related to Our Investments — Our investments may be risky, and you could lose all or part of your investment.” in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019.

Our CLO Fund Securities as of September 30, 2020 and December 31, 2019 are as follows:

CLO Fund Securities	Investment	% ¹	September 30, 2020(2)		December 31, 2019(2)	
			Amortized Cost	Fair Value	Amortized Cost	Fair Value
Catamaran CLO 2013- 1 Ltd.	Subordinated Notes	23.3	6,076,766	2,709,871	6,094,823	5,025,536
Catamaran CLO 2014-1 Ltd.	Subordinated Notes	22.2	10,094,797	2,331,700	9,995,658	6,379,580
Dryden 30 Senior Loan Fund	Subordinated Notes	6.8	1,360,501	1,333,150	1,519,641	1,984,155
Catamaran CLO 2014-2 Ltd.	Subordinated Notes	24.9	6,065,598	—	6,072,697	1,139,032
Catamaran CLO 2015-1 Ltd.	Subordinated Notes	9.9	4,133,076	1,552,452	4,088,504	2,514,130
Catamaran CLO 2016-1 Ltd.	Subordinated Notes	24.9	9,013,064	4,033,692	9,253,304	6,395,016
Catamaran CLO 2018-1 Ltd.	Subordinated Notes	24.8	9,358,631	6,831,000	9,594,090	8,530,751
Total			<u>\$ 46,102,433</u>	<u>\$ 18,791,865</u>	<u>\$ 46,618,717</u>	<u>\$ 31,968,202</u>

¹ Represents percentage of class held at September 30, 2020.

² Other than Dryden 30 Senior Loan Fund, all of our CLO Fund securities investments were managed by affiliates as of September 30, 2020 and December 31, 2019.

As a result of the severe economic consequences resulting from the COVID 19 pandemic, during the second quarter of 2020, the Company was notified that 4 of the Catamaran CLO Funds breached certain covenants contained in their respective indentures, and as a result, available cash within the CLO Fund will be diverted away from the subordinated notes owned by the Company and will be applied to more senior noteholders in the capital structure of the CLO Fund. The estimated timing and amount of future distributions, if any, from these CLO Fund Securities is uncertain. It is also possible, based upon current economic conditions resulting from the COVID 19 pandemic, that additional CLO Fund Securities owned by the Company, and including the subordinated securities issued by Great Lakes KCAP F3C Senior LLC CLO, which are owned by the KCAP Freedom 3 Joint Venture, could also cease making distributions to the Company.

Investment in Joint Ventures

KCAP Freedom 3 LLC

During the third quarter of 2017, we and Freedom 3 Opportunities LLC (“Freedom 3 Opportunities”), an affiliate of Freedom 3 Capital LLC, entered into an agreement to create KCAP Freedom 3 LLC (the “Joint Venture”). We contributed approximately \$37 million and Freedom 3 Opportunities contributed approximately \$25 million, in assets to the Joint Venture, which in turn used the assets to capitalize a new fund, Great Lakes KCAP F3C Senior Funding L.L.C. (formerly known as KCAP F3C Senior Funding, L.L.C.) (the “Fund”) managed by KCAP Management, LLC, one of the Asset Manager Affiliates. In addition, the Fund used cash on hand and borrowings under a credit facility to purchase approximately \$184 million of primarily middle-market loans from us and we used the proceeds from such sale to redeem approximately \$147 million in debt issued by KCAP Senior Funding I, LLC (“KCAP Senior Funding”). The Fund invests primarily in middle-market loans and the Joint Venture partners may source middle-market loans from time-to-time for the Fund.

During the fourth quarter of 2017, the Fund was refinanced through the issuance of senior and subordinated notes. The Joint Venture purchased 100% of the subordinated notes issued by the Fund. In connection with the refinancing, the Joint Venture made a cash distribution to us of approximately \$12.6 million. \$11.8 million of this distribution was a return of capital, reducing the cost basis of our investment in the Joint Venture by that amount. The final determination of the tax attributes of distributions from the Joint Venture is made on an annual (full calendar year) basis at the end of the year, therefore, any estimate of tax attributes of distributions made on an interim basis may not be representative of the actual tax attributes of distributions for the full year.

In connection with the Externalization, during the first quarter of 2019, KCAP Management agreed to waive management fees it is otherwise entitled to receive for managing the Fund. In addition, the Joint Venture was restructured such that we are now entitled to receive a preferred distribution in an amount equal to the fees waived by KCAP Management. The impact of these transactions was a reduction in the fair value of the Asset Manager Affiliates (realized loss) and increase the fair value of our investment in the Joint Venture (unrealized gain) during the first quarter of 2019.

While we own a 60% interest in the Joint Venture, the Joint Venture is structured as an unconsolidated Delaware limited liability company. All portfolio and other material decisions regarding the Joint Venture must be submitted to its board of managers, which is comprised of four members, two of whom were selected by us and two of whom were selected by Freedom 3 Opportunities, and must be approved by at least one member appointed by us and one appointed by Freedom 3 Opportunities. In addition, certain matters may be approved by the Joint Venture's investment committee, which is comprised of one member appointed by us and one member appointed by Freedom 3 Opportunities.

We have determined that the Joint Venture is an investment company under Accounting Standards Codification ("ASC"), Financial Services — Investment Companies ("ASC 946"), however, in accordance with such guidance, we will generally not consolidate our investment in a company other than a wholly owned investment company subsidiary or a controlled operating company whose business consists of providing services to us. We do not consolidate its interest in the Joint Venture because we do not control the Joint Venture due to allocation of the voting rights among the Joint Venture partners.

KCAP Freedom 3 LLC
Summarized Statement of Financial Condition

	As of September 30, 2020	As of December 31, 2019
Investment at fair value	\$ 27,095,060	\$ 33,737,631
Total Assets	<u>\$ 27,095,060</u>	<u>\$ 33,737,631</u>
Total Liabilities	\$ 167,389	\$ 135,457
Total Equity	26,927,671	33,602,174
Total Liabilities and Equity	<u>\$ 27,095,060</u>	<u>\$ 33,737,631</u>

KCAP Freedom 3 LLC
Summarized Statement of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Investment income	\$ 1,294,081	\$ 1,341,881	\$ 3,689,714	\$ 3,957,429
Operating expenses	1,997	35,191	33,497	54,183
Net investment income	1,292,084	1,306,690	3,656,217	3,903,246
Unrealized appreciation on investments	1,779,745	(1,663,956)	(5,583,581)	1,928,979
Net income	<u>\$ 3,071,829</u>	<u>\$ (357,266)</u>	<u>\$ (1,927,366)</u>	<u>\$ 5,832,225</u>

KCAP Freedom 3 LLC
Schedule of Investments
September 30, 2020

Portfolio Company	Investment	Percentage Ownership by Joint Venture	Amortized Cost	Fair Value
Great Lakes KCAP F3C Senior, LLC ⁽¹⁾⁽²⁾	Subordinated Securities, effective interest 5.8%, 12/29 maturity	100.0%	\$ 39,742,392	\$ 27,095,060
Total Investments			\$ 39,742,392	\$ 27,095,060

- (1) CLO Subordinated Investments are entitled to periodic distributions which are generally equal to the remaining cash flow of the payments made by the underlying fund's investments less contractual payments to debt holders and fund expenses. The estimated annualized effective yield indicated is based upon a current projection of the amount and timing of these distributions. Such projections are updated on a quarterly basis and the estimated effective yield is adjusted prospectively.
- (2) Fair value of this investment was determined using significant unobservable inputs, including default rates, prepayment rates, spreads, and the discount rate by which to value the resulting cash flows.

KCAP Freedom 3 LLC
Schedule of Investments
December 31, 2019

Portfolio Company	Investment	Percentage Ownership by Joint Venture	Amortized Cost	Fair Value
Great Lakes KCAP F3C Senior, LLC ⁽¹⁾⁽²⁾ (3)	Subordinated Securities, effective interest 11.2%, 12/29 maturity	100.0%	\$ 40,801,382	\$ 33,737,631
Total Investments			\$ 40,801,382	\$ 33,737,631

- (1) CLO Subordinated Investments are entitled to periodic distributions which are generally equal to the remaining cash flow of the payments made by the underlying fund's investments less contractual payments to debt holders and fund expenses. The estimated annualized effective yield indicated is based upon a current projection of the amount and timing of these distributions. Such projections are updated on a quarterly basis and the estimated effective yield is adjusted prospectively.
- (2) Fair value of this investment was determined using significant unobservable inputs, including default rates, prepayment rates, spreads, and the discount rate by which to value the resulting cash flows.
- (3) Formerly known as KCAP F3C Senior Funding, LLC

As a result of the severe economic consequences resulting from the COVID 19 pandemic, it is possible that the subordinated securities issued by Great Lakes KCAP F3C Senior LLC CLO, which are owned by the KCAP Freedom 3 Joint Venture, could also cease making distributions to the KCAP Freedom 3 Joint Venture.

BCP Great Lakes Partnership

BCP Great Lakes Fund LP (the “BCP Great Lakes Partnership”) has invested in BCP Great Lakes Holdings LP, a vehicle formed as a co-investment vehicle to facilitate the participation of certain co-investors to invest, directly or indirectly, in BCP Great Lakes Funding, LLC (the “Great Lakes Joint Venture” and together with the Joint Venture, the “Joint Ventures”). We are a limited partner in the BCP Great Lakes Partnership and do not have any direct or indirect voting interests in the Great Lakes Joint Venture, and treat the investment as a joint venture since an affiliate of our Adviser manages BCP Great Lakes Holdings LP and controls a 50% voting interest in the Great Lakes Joint Venture. The investment strategy of BCP Great Lakes Funding, LLC is to underwrite and hold senior, secured unitranche loans made to middle-market companies. We do not pay any advisory fees in connection with our investment in the BCP Great Lakes Partnership.

The fair value of our investment in the BCP Great Lakes Partnership at September 30, 2020 and December 31, 2019 was \$29.7 million and \$23.8 million. Fair value has been determined utilizing the practical expedient pursuant to ASC 820-10. Pursuant to the terms of the BCP Great Lakes Fund LP Amended and Restated Exempted Limited Partnership Agreement (the “BCP Great Lakes Partnership Agreement”), generally we may not sell, exchange, assign, pledge or otherwise transfer our interest, in whole or in part, without the prior written consent of the general partner of the Great Lakes Partnership (the “General Partner”) which consent may be given or withheld in the General Partner’s sole and absolute discretion, and may be conditioned upon repayment of our share of indebtedness incurred by BCP Great Lakes Partnership.

In March 2019, prior to the Externalization we increased our aggregate commitment to the BCP Great Lakes Partnership to \$50 million, subject to certain limitations (including that we are not obligated to fund capital calls if such funding would cause the Company to be out of compliance with certain provisions of the Investment Company Act of 1940). As of September 30, 2020 and December 31, 2019, we have a \$19.9 million and \$26.3 million, respectively unfunded commitment to the BCP Great Lakes Partnership. However, at September 30, 2020 our funding commitment was limited to approximately \$4.9 million pursuant to the limitations described above.

RESULTS OF OPERATIONS

The principal measure of our financial performance is the net increase (decrease) in stockholders' equity resulting from operations, which includes net investment income (loss) and net realized and unrealized appreciation (depreciation). Net investment income (loss) is the difference between our income from interest, distributions, fees, and other investment income and our operating expenses. Net realized gain (loss) on investments is the difference between the proceeds received from dispositions of portfolio investments and their amortized cost. Net change in unrealized appreciation (depreciation) on investments is the net change in the fair value of our investment portfolio.

Set forth below is a discussion of our results of operations for the three and nine months ended September 30, 2020 and 2019.

Revenue

Revenues consist primarily of investment income from interest and dividends on our investment portfolio and various ancillary fees related to our investment holdings.

Interest from Investments in Debt Securities. We generate interest income from our investments in debt securities that consist primarily of senior and junior secured loans. Our Debt Securities Portfolio is spread across multiple industries and geographic locations, and as such, we are broadly exposed to market conditions and business environments. As a result, although our investments are exposed to market risks, we continuously seek to limit concentration of exposure in any particular sector or issuer.

On July 27, 2017, the Financial Conduct Authority ("FCA") announced that it would phase out the LIBOR as a benchmark by the end of 2021 and the FCA has indicated that market participants should not rely on LIBOR being available after 2021. As an alternative to LIBOR, for example, the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S.-dollar LIBOR with the Secured Overnight Financing Rate ("SOFR"), a new index calculated by short-term repurchase agreements, backed by Treasury securities. Abandonment of or modifications to LIBOR could have adverse impacts on newly issued financial instruments and our existing financial instruments which reference LIBOR. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR, or any changes announced with respect to such reforms, may result in a sudden or prolonged increase or decrease in the reported LIBOR rates and the value of LIBOR-based loans and securities, including those of other issuers we or our funds currently own or may in the future own. It remains uncertain how such changes would be implemented and the effects such changes would have on us, issuers of instruments in which we invest and financial markets generally.

The expected discontinuation of LIBOR could have a significant impact on our business. The dollar amount of our outstanding debt investments and borrowings that are linked to LIBOR with maturity dates after the anticipated discontinuation date of 2021 is material. We anticipate significant operational challenges for the transition away from LIBOR including, but not limited to, amending existing loan agreements with borrowers on investments that may have not been modified with fallback language and adding effective fallback language to new agreements in the event that LIBOR is discontinued before maturity. Beyond these challenges, we anticipate there may be additional risks to our current processes and information systems that will need to be identified and evaluated by us. Due to the uncertainty of the replacement for LIBOR, the potential effect of any such event on our cost of capital and net investment income cannot yet be determined. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market value for or value of any LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us and could have a material adverse effect on our business, financial condition and results of operations.

Investment Income on Investments in CLO Fund Securities. We generate investment income from our investments in the securities (typically preferred shares or subordinated securities) of CLO Funds. We distinguish CLO Funds managed by our Asset Manager Affiliates as “CLO Fund Securities Managed by Affiliates”, in our consolidated financial statements. Since the Asset Manager Affiliates were owned throughout 2018 and sold on December 31, 2018, investment income on these CLO Fund Securities is reflected on the statement of operations for the year of 2018 as “managed by affiliates”, while on the consolidated balance sheet at December 31, 2018 these investments were reflected as “managed by non-affiliates”. Effective April 1, 2019, as a result of the Externalization and related transactions, CLO Fund investments managed by LibreMax were assigned to CLO Funds Managed by Affiliates. CLO Funds invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which we have an investment are generally diversified secured or unsecured corporate debt. Our CLO Fund Securities that are subordinated securities or preferred shares (“junior securities”) are subordinated to senior note holders who typically receive a return on their investment at a fixed spread relative to the LIBOR index. The CLO Funds are leveraged funds and any excess cash flow or “excess spread” (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund’s subordinated securities or preferred shares. The level of excess spread from CLO Fund Securities can be impacted by the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund note liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and resulting cash distributions to us can vary significantly.

Interest income on investments in CLO equity investments is recorded using the effective interest method in accordance with the provisions of ASC 325-40, Beneficial Interests in Securitized Financial Assets (“ASC 325-40”), 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 projected future 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 prospectively over the remaining life of the investment from the date the estimated yield was changed. Accordingly, investment income recognized on CLO equity securities in the U.S. generally accepted accounting principles (“GAAP”) statement of operations differs from both the tax-basis investment income and from the cash distributions actually received by us during the period. As a RIC, we anticipate a timely distribution of our tax-basis taxable income.

For non-junior class CLO Fund securities, interest is earned at a fixed spread relative to the LIBOR index.

Distributions from Asset Manager Affiliates. Substantially all of our investment in the Asset Manager Affiliates was sold on December 31, 2018. Prior thereto, we had received cash distributions from the Asset Manager Affiliates, which manage CLO Funds that invest primarily in broadly syndicated non-investment grade loans, high yield bonds and other credit instruments issued by corporations. As managers of CLO Funds, the Asset Manager Affiliates receive contractual and recurring management fees from the CLO Funds for their management and advisory services. In addition, the Asset Manager Affiliates may also earn income related to net interest on assets accumulated for future CLO issuances on which they have taken a first loss position in connection with loan warehouse arrangements for their future CLO Funds.

As a result of tax-basis goodwill amortization and certain other tax-related adjustments, portions of distributions received may be deemed return of capital. Our Asset Manager Affiliates was deemed to have no value at September 30, 2020 and December 31, 2019. There were no distributions from the Asset Manager Affiliates during the first three quarters of 2019. The difference between cash distributions received and the tax-basis earnings and profits is recorded as an adjustment to the cost basis of the Asset Manager Affiliates investments. For interim periods, we estimate the tax attributes of any distributions as being either from tax-basis earnings and profits (i.e. dividend income) or return of capital (i.e. adjustment to our cost basis in the Asset Manager Affiliates). The final determination of the tax attributes of distributions from our Asset Manager Affiliates is made on an annual (full calendar year) basis at the end of the year based upon taxable income and distributions for the full-year. Therefore, any estimate of tax attributes of distributions made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year. The aggregate par value of assets under management by our Asset Manager Affiliates was \$300 million as of September 30, 2020 and December 31, 2019.

Investment in Joint Ventures. For the three months ended September 30, 2020 and 2019, the Company recognized \$2.2 million and \$1.3 million, respectively, in investment income from its investments in Joint Ventures. For the nine months ended September 30, 2020 and 2019, the Company recognized \$4.8 million and \$3.5 million, respectively, in investment income from its investments in Joint Ventures. As of September 30, 2020 and December 31, 2019, the fair value of our investments in Joint Ventures was approximately \$46.8 million and \$45.1 million, respectively. For interim periods, we recognize investment income on its investment in the Joint Ventures based upon our share of estimated earnings and profits of the Joint Venture. The final determination of the tax attributes of distributions from Joint Ventures is made on an annual (full calendar year) basis at the end of the year based upon taxable income and distributions for the full year. Therefore, any estimate of tax attributes of distributions made on an interim basis may not be representative of the actual tax attributes of distributions for the full year.

Capital Structuring Service Fees. We may earn ancillary structuring and other fees related to the origination, investment, disposition or liquidation of debt and investment securities.

Investment Income

Investment income for the three months ended September 30, 2020 and 2019 and was approximately \$7.8 million and \$7.1 million, respectively. Of these amounts, approximately \$5.0 million and \$4.2 million, respectively was attributable to interest income on our Debt Securities Portfolio.

Investment income for the nine months ended September 30, 2020 and 2019 was approximately \$22.9 million and \$19.8 million, respectively. Of these amounts, approximately \$15.0 million and \$11.0 million, respectively was attributable to interest income on our Debt Securities Portfolio.

At September 30, 2020 and December 31, 2019, the weighted average contractual interest rate on our loans and debt securities was approximately 8.3% and 10.9%, respectively. At September 30, 2020 and December 31, 2019, the weighted average contractual interest rate on our loans and debt securities, excluding non-accrual and partial non-accrual investments, was approximately 7.9% and 9.0%, respectively.

Investment income is primarily dependent on the composition and credit quality of our investment portfolio. Generally, our Debt Securities Portfolio is expected to generate predictable, recurring interest income in accordance with the contractual terms of each loan. Corporate equity securities may pay a dividend and may increase in value for which a gain may be recognized; generally, such dividend payments and gains are less predictable than interest income on our loan portfolio.

For the three months ended September 30, 2020 and 2019, approximately \$0.6 million and \$1.6 million, respectively, of investment income was attributable to investments in CLO Fund Securities. For the nine months ended September 30, 2020 and 2019, approximately \$2.7 million and \$5.1 million, respectively, of investment income was attributable to investments in CLO Fund Securities. On a tax basis, the Company recognized \$3.3 million and \$5.9 million of taxable distributable income on distributions from our CLO Fund Securities during the nine months ended September 30, 2020 and 2019, respectively. Distributions from CLO Fund Securities are dependent on the performance of the underlying assets in each CLO Fund; interest payments, principal amortization and prepayments of the underlying loans in each CLO Fund are primary factors which determine the level of distributions on our CLO Fund Securities. The level of excess spread from CLO Fund Securities can be impacted by the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund bond liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly.

Expenses

Through March 31, 2019 we were internally managed, and directly incurred the cost of management and operations. As a result, we paid no investment management fees or other fees to an external advisor. Our expenses consisted primarily of interest expense on outstanding borrowings, compensation expense and general and administrative expenses, including professional fees. Interest and compensation expense are typically our largest expenses each period. Since the Closing, we have been externally managed and no longer have any employees. However, in connection with the Advisory Agreement, we pay the Adviser certain investment advisory fees and reimburse the Adviser and Administrator for certain expenses incurred in connection with the services they provide. We bear our allocable portion of the compensation paid by the Adviser (or its affiliates) to our chief compliance officer and chief financial officer and their respective staffs (based on a percentage of time such individuals devote, on an estimated basis, to our business affairs). We also bear all other costs and expenses of our operations, administration and transactions, including, but not limited to (i) investment advisory fees, including management fees and incentive fees, to the Adviser, pursuant to the Advisory Agreement; (ii) our allocable portion of overhead and other expenses incurred by the Adviser (or its affiliates) in performing its administrative obligations under the Advisory Agreement, and (iii) all other expenses of our operations and transactions including, without limitation, those relating to:

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting any sales and repurchases of our common stock and other securities;
- fees and expenses payable under any dealer manager or placement agent agreements, if any;
- administration fees payable under the Administration Agreement and any sub-administration agreements, including related expenses;
- debt service and other costs of borrowings or other financing arrangements;
- costs of hedging;
- expenses, including travel expense, incurred by the Adviser, or members of the investment team, or payable to third parties, performing due diligence on prospective portfolio companies and, if necessary, enforcing our rights;

- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees, any stock exchange listing fees and fees payable to rating agencies;
- federal, state and local taxes;
- independent directors' fees and expenses including certain travel expenses;
- costs of preparing financial statements and maintaining books and records and filing reports or other documents with the SEC (or other regulatory bodies) and other reporting and compliance costs, including registration and listing fees, and the compensation of professionals responsible for the preparation of the foregoing;
- the costs of any reports, proxy statements or other notices to stockholders (including printing and mailing costs), the costs of any stockholder or director meetings and the compensation of personnel responsible for the preparation of the foregoing and related matters;
- commissions and other compensation payable to brokers or dealers;
- research and market data;
- fidelity bond, directors and officers errors and omissions liability insurance and other insurance premiums;
- direct costs and expenses of administration, including printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits, outside legal and consulting costs;
- costs of winding up our affairs;
- costs incurred by either the Administrator or us in connection with administering our business, including payments under the Administration Agreement;
- extraordinary expenses (such as litigation or indemnification); and
- costs associated with reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws.

Management Fees. Management fees for the three months ended September 30, 2020 and 2019, were approximately \$1.0 million and \$1.0 million, respectively. Incentive fees earned during the three months ended September 30, 2020 and 2019, were approximately \$572 thousand and \$0.

Management fees for the nine months ended September 30, 2020 and 2019, were approximately \$3.1 million and \$2.1 million, respectively. Incentive fees earned during nine months ended September 30, 2020 and 2019, were approximately \$1.1 million and \$0, \$557 thousand of which were waived pursuant to the Externalization Agreement for the nine months ended September 30, 2020.

Interest and Amortization of Debt Issuance Costs. Interest expense is dependent on the average outstanding balance on our borrowings and, the base index rate for the period. Debt issuance costs represent fees, and other direct costs incurred in connection with our borrowings. These amounts are capitalized and amortized ratably over the expected term of the borrowing.

Compensation Expense. Prior to the Closing of the Externalization on April 1, 2019, compensation expense included base salaries, bonuses, stock compensation, employee benefits and employer-related payroll costs. The largest components of total compensation costs are base salaries and bonuses; generally, base salaries are expensed as incurred and annual bonus expenses are estimated and accrued. Our compensation arrangements with our employees contained a profit sharing and/or performance-based bonus component. Following the Closing, we no longer have any employees and therefore do not have any related expenses.

Professional Fees, Administrative Services Expense and General Administrative Expenses. The balance of our expenses includes professional fees (primarily legal, accounting, director fees, valuation and other professional services), insurance costs, Administrative services expense under the Administration Agreement and general administrative and other costs.

Total expenses for the three months ended September 30, 2020 and 2019 were approximately \$5.1 million and \$4.8 million, respectively.

For the three months ended September 30, 2020 and 2019, interest expense and amortization on debt issuance costs for the period was approximately \$2.2 million and \$2.3 million, respectively, on average debt outstanding of \$173 million and \$131 million, respectively.

For the three months ended September 30, 2020 and 2019, respectively, professional fees and insurance expenses totaled approximately \$0.6 million and \$0.8 million. Other general and administrative costs, (which in 2019 include rent expense on the Company's lease obligation, which was terminated in the fourth quarter of 2019), and other administrative expenses, totaled approximately \$0.1 million and \$0.3 million for the three months ended September 30, 2020 and 2019, respectively.

During the second quarter of 2019, the Company recorded an impairment charge of approximately \$1.4 million to write down the lease right-of-use asset for office space previously occupied by the Company. The impairment charge is recorded as a separate line item within the expense section of the consolidated statement of operations.

For the nine months ended September 30, 2020 and 2019, professional fees and insurance expenses totaled approximately \$2.3 million and \$3.4 million respectively. For the nine months ended September 30, 2019, the Company incurred approximately \$1.0 million of professional fees in connection with the Externalization. Other general and administrative expenses, which in 2019 includes rent expense on the Company's lease obligation, technology and other office and administrative expenses, totaled approximately \$0.5 million and \$1.4 million for the nine months ended September 30, 2020 and 2019, respectively.

Total expenses for the nine months ended September 30, 2020 and 2019 were approximately \$14.8 million and \$18.9 million, respectively. For the nine months ended September 30, 2019, we incurred approximately \$3.4 million in total expenses in connection with the Externalization and approximately \$1.4 million related to a non-cash impairment charge to write down the value of the right-of-use asset for the lease of office space formerly occupied by the Company prior to the Externalization. The impairment charge related to our write down of the lease right-of-use asset is recorded as a separate line item within the expense section of the consolidated statement of operations. For the nine months ended September 30, 2020 and 2019, interest expense and amortization on debt issuance costs for the period was approximately \$7.0 million and \$6.1 million, respectively, on average debt outstanding of \$160 million and \$117 million, respectively. For the six months ended June 30, 2019, we incurred approximately \$187,000 in administrative costs in connection with the Externalization. Since April 1, 2019, as a result of the Externalization, the Company no longer has employees and does not incur employee compensation costs. For the nine months ended September 30, 2019, we incurred approximately \$2.2 million in compensation expense (primarily severance) in connection with the Externalization.

Net Investment Income and Net Realized Gains (Losses)

Net investment income and net realized gains (losses) represents the change in stockholder's equity before net unrealized appreciation or depreciation on investments. For the three months ended September 30, 2020, net investment income and net realized gains were approximately \$0.8 million, or \$0.02 per share. For the three months ended September 30, 2019, net investment income and net realized losses were approximately \$1.1 million, or \$0.03 per share. Net investment income represents the income earned on our investments less operating and interest expense before net realized gains or losses and unrealized appreciation or depreciation on investments.

For the nine months ended September 30, 2020, net investment income and net realized losses were approximately \$4.2 million, or \$0.10 per share. For the nine months ended September 30, 2019, net investment loss and net realized losses were approximately (\$15.9) million, or (\$0.42) per share.

Investments are carried at fair value, with changes in fair value recorded as unrealized appreciation (depreciation) in the statement of operations. When an investment is sold or liquidated, any previously recognized unrealized appreciation/depreciation is reversed and a corresponding amount is recognized as realized gain (loss). For the nine months ended September 30, 2020, GAAP-basis net investment income was approximately \$8.1 million or \$0.18 per share, while tax-basis distributable income was approximately \$8.3 million or \$0.19 per share. For the nine months ended September 30, 2019, GAAP-basis net investment income was approximately \$0.9 million or \$0.02 per basic share, while tax-basis distributable income was approximately \$5.1 million or \$0.14 per share.

Net Unrealized (Depreciation) Appreciation on Investments

During the three months ended September 30, 2020, our total investments had net unrealized appreciation of approximately \$7.5 million. Included in the net unrealized appreciation are unrealized appreciation on CLO Fund Securities of approximately \$1.9 million unrealized appreciation and on equity securities of approximately \$0.3 million, an unrealized appreciation of \$1.1 million on our Joint Ventures investment, unrealized appreciation on our debt securities of \$4.6 million, and unrealized depreciation of \$0.5 million on our derivatives. During the three months ended September 30, 2019, our total investments had net unrealized depreciation of approximately \$5.3 million. Included in the net unrealized depreciation are unrealized depreciation on CLO Fund Securities of approximately \$2.7 million unrealized depreciation and on equity securities of approximately \$0.9 million, an unrealized depreciation of \$1.1 million on our Joint Ventures investment and unrealized depreciation on our debt securities of \$0.6 million.

During the nine months ended September 30, 2020, our total investments had net unrealized depreciation of approximately \$21.8 million. Included in the net unrealized depreciation for the nine months ended September 30, 2020, are unrealized depreciation on CLO Fund Securities of approximately \$12.7 million, net unrealized appreciation on equity securities of approximately \$0.4 million, unrealized depreciation of \$1.0 million on our derivatives, no unrealized on the Asset Manager Affiliates, as well as an unrealized depreciation of \$4.7 million on our Joint Ventures investment and unrealized depreciation on our debt securities of approximately \$3.9 million. During the nine months ended September 30, 2019, our total investments had net unrealized depreciation of approximately \$0.1 million. Included in the net unrealized depreciation are unrealized depreciation on CLO Fund Securities of approximately \$0.8 million unrealized depreciation and on equity securities of approximately \$5.8 million, no unrealized depreciation on the Asset Manager Affiliates, as well as an unrealized appreciation of \$2.9 million on our Joint Ventures investment and unrealized appreciation on our debt securities of \$3.6 million.

Net Change in Stockholder's Equity Resulting From Operations

The net increase in stockholders' equity resulting from operations for the three months ended September 30, 2020 was \$8.3 million, or \$0.19 per basic share. Net decrease in stockholders' equity resulting from operations for the three months ended September 30, 2019 was (\$4.3) million, or \$(0.11) per share.

The net decrease in stockholders' equity resulting from operations for the nine months ended September 30, 2020 was (\$17.5) million, or \$(0.39) per basic share. Net decrease in stockholders' equity resulting from operations for the nine months ended September 30, 2019 was (\$16.0) million, or \$(0.43) per share.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay distributions to our stockholders and other general business needs. We recognize the need to have funds available for operating our business and to make investments. We seek to have adequate liquidity at all times to cover normal cyclical swings in funding availability and to allow us to meet irregular and unexpected funding requirements. We plan to satisfy our liquidity needs through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

As of September 30, 2020 and December 31, 2019 the fair value of investments and cash were as follows:

Security Type	Investments at Fair Value	
	September 30, 2020	December 31, 2019
Cash	\$ 677,438	\$ 136,864
Restricted Cash	4,907,105	4,967,491
Short-term investments	10,219,782	4,207,107
Senior Secured Loan	124,413,259	88,788,639
Junior Secured Loan	79,851,015	95,188,373
Subordinated Note	—	2,422,281
Senior Unsecured Bond	301,984	403,615
CLO Fund Securities	18,791,865	31,968,202
Equity Securities	9,703,027	9,864,419
Joint Ventures	46,831,611	45,087,967
Derivatives	(1,033,048)	(33,437)
Total	\$ 294,664,038	\$ 283,001,520

Borrowings

We use borrowed funds, known as “leverage,” to make investments and to attempt to increase returns to our shareholders by reducing our overall cost of capital. As a BDC, we are limited in the amount of leverage we can incur under the 1940 Act. We are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 150% after such borrowing. As of September 30, 2020, we had approximately \$171 million of par value of outstanding borrowings and our asset coverage ratio of total assets to total borrowings was 172%, compliant with the minimum asset coverage level of 150% generally required for a BDC by the 1940 Act. We may also borrow amounts of up to 5% of the value of our total assets for temporary purposes.

The Small Business Credit Availability Act (the “SBCA”) has modified the 1940 Act by allowing a BDC to increase the maximum amount of leverage it may incur from an asset coverage ratio of 200% to an asset coverage ratio of 150%, if certain requirements are met. On March 29, 2018, the Board, including a “required majority” (as such term is defined in Section 57(o) of the 1940 Act) of its Board, approved the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCA. As a result, our asset coverage requirements for senior securities changed from 200% to 150%, effective as of March 29, 2019.

On April 8, 2020, in connection with the outbreak of the COVID-19 pandemic, the SEC issued the Order Under Sections 6(c), 17(d), 38(a) and 57(i) of the Investment Company Act of 1940 and Rule 17d-1 Thereunder Granting Exemptions from Specified Provisions of the Investment Company Act and Certain Rules Thereunder, Investment Company Act Release No. 33837 (Apr. 8, 2020) (the “April 2020 Order”), which provides exemptions from certain requirements of the 1940 Act. Section II of the April 2020 Order (i) affords BDCs greater flexibility in calculating asset coverage ratios for purposes of the 1940 Act asset coverage requirements, (ii) requires a BDC’s board of directors, including a required majority of such board, as defined in Section 57(o) of the 1940 Act, to determine that the issuance or sale of covered senior securities is permitted by this Order and is in the best interests of the BDC and its stockholders, (iii) requires prior disclosure on Form 8-K of the election to rely on Section II of the April 2020 Order, and (iv) includes certain limitations on new investments, among other requirements detailed in the April 2020 Order.

In particular, election to be subject to Section II of the April 2020 Order would permit us to use a modified formula to calculate our asset coverage ratios for purposes of the 1940 Act asset coverage requirements and, in doing so, would permit us to rely in part on the fair value of our assets as of December 31, 2019. The overall effect of any election to be subject to Section II of the April 2020 Order would be to make it easier for us to meet our applicable asset coverage ratios for purposes of the 1940 Act asset coverage requirements, as well as for purposes of covenants referencing the 1940 Act asset coverage requirements, including under the indenture governing our 6.125% Notes due 2022. As of the date of this filing, our board of directors has no intention to elect to be subject to Section II of the April 2020 Order but will continue to assess its potential benefits to the Company with respect to providing additional flexibility to manage our portfolio and support our portfolio companies during the economic disruption caused by the COVID-19 pandemic.

We intend to maintain adequate liquidity and compliance with regulatory and contractual asset coverage requirements.

Outstanding Notes

During the third quarter of 2017, we issued \$77.4 million aggregate principal amount of 6.125% Notes due 2022 (the “6.125% Notes Due 2022”). The net proceeds for the 6.125% Notes Due 2022, after the payment of underwriting expenses, were approximately \$74.6 million. Interest on the 6.125% Notes Due 2022 is paid quarterly in arrears on March 30, June 30, September 30 and December 30, at a rate of 6.125% commencing September 30, 2017. The 6.125% Notes Due 2022 mature on September 30, 2022 and are senior unsecured obligations. The indenture governing the 6.125% Notes Due 2022 contains certain restrictive covenants, including compliance with certain provisions of the 1940 Act relating to borrowing and dividends. In this regard, the 1940 Act-related indenture covenants provide that, for the period of time during which the 6.125% Notes Due 2022 are outstanding, the Company will not violate (regardless of whether it is subject to):

- Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not the Company continues to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to it by the SEC. These provisions generally prohibit the Company from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 150% after such borrowings.
- Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, giving effect to (i) any exemptive relief granted to us by the SEC and (ii) no-action relief granted by the SEC to another BDC (or to the Company if it determines to seek such similar no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act in order to maintain its status as a RIC under the Code. These provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 150% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase.

During the nine months ended September 30, 2020, the Company repurchased approximately \$681 thousand of principal amount of the 6.125% Notes Due 2022 at a cost of approximately \$513 thousand, resulting in a realized gain on extinguishment of \$155 thousand. The Company subsequently surrendered these notes to the Trustee for cancellation.

Revolving Credit Facilities

On March 1, 2018, Great Lakes KCAP Funding I, LLC (“Funding”), our wholly owned subsidiary, entered into a senior secured revolving credit facility (the “Prior Revolving Credit Facility”) with certain institutional lenders, State Bank and Trust Company, as the administrative agent, lead arranger and bookrunner, CIBC Bank USA, as documentation agent and us, as the servicer. The maximum commitment amount of the Prior Revolving Credit Facility was increased on March 27, 2019 to \$57.5 million, and on April 1, 2019 to \$67.5 million, subject to availability under the borrowing base. The Prior Revolving Credit Facility was fully repaid and the related agreements, including security interests in assets pledged as collateral, were terminated on December 23, 2019. Borrowings under the Prior Revolving Credit Facility bore interest at a rate per annum equal to (i) in the case of LIBOR rate loans, an adjusted LIBOR rate for the applicable interest period plus 3.25% or (ii) in the case of base rate loans, the prime rate plus 3.25%. Funding paid a fee on any undrawn amounts of 0.375% per annum; provided that if 50% or less of the Prior Revolving Credit Facility was drawn, the fee would be 0.50% per annum.

On December 18, 2019, Great Lakes Portman Ridge Funding LLC (“GLPRF LLC”), a wholly-owned subsidiary of the Company, entered into a senior secured revolving credit facility (the “Revolving Credit Facility”) with JPMorgan Chase Bank, National Association (“JPM”). JPM serves as administrative agent, U.S. Bank National Association serves as collateral agent, securities intermediary and collateral administrator, and the Company serves as portfolio manager under the Revolving Credit Facility.

Advances under the Revolving Credit Facility bear interest at a per annum rate equal to the three-month LIBOR in effect, plus the applicable margin of 2.85% per annum. GLPRF LLC is required to utilize a minimum of 80% of the commitments under the Revolving Credit Facility, after an initial six-month ramp-up period during which a lesser minimum utilization requirement applies. Unused amounts below such minimum utilization amount accrue interest as if such amounts are outstanding as borrowings under the Revolving Credit Facility. In addition, GLPRF LLC will pay a non-usage fee during the first three years after the closing date in an amount not to exceed 0.50% per annum on the average daily unborrowed portion of the financing commitments in excess of such minimum utilization amount.

The initial principal amount of the Revolving Credit Facility is \$115 million. The Revolving Credit Facility has an accordion feature, subject to the satisfaction of various conditions, which could bring total commitments under the Revolving Credit Facility to up to \$215 million. Proceeds from borrowings under the Revolving Credit Facility may be used to fund portfolio investments by GLPRF LLC and to make advances under delayed draw term loans where GLPRF LLC is a lender. All amounts outstanding under the Revolving Credit Facility must be repaid by the maturity date of December 18, 2023.

GLPRF LLC’s obligations to the lenders under the Revolving Credit Facility are secured by a first priority security interest in all of GLPRF LLC’s portfolio of investments and cash. The obligations of GLPRF LLC under the Revolving Credit Facility are non-recourse to the Company, and the Company’s exposure under the Revolving Credit Facility is limited to the value of the Company’s investment in GLPRF LLC.

In connection with the Revolving Credit Facility, GLPRF LLC has made certain customary representations and warranties and is required to comply with various covenants, reporting requirements and other customary requirements for similar facilities. The Revolving Credit Facility contains customary events of default for similar financing transactions, including if a change of control of GLPRF LLC occurs or if the Company is no longer the portfolio manager of GLPRF LLC. Upon the occurrence and during the continuation of an event of default, JPM may declare the outstanding advances and all other obligations under the Revolving Credit Facility immediately due and payable.

The occurrence of an event of default (as described above) or a market value event (as defined in the Revolving Credit Facility) triggers a requirement that GLPRF LLC obtain the consent of JPM prior to entering into certain sales or dispositions with respect to portfolio assets, and the occurrence of a market value event triggers the right of JPM to direct GLPRF LLC to enter into sales or dispositions with respect to any portfolio assets, in each case in JPM’s sole discretion.

At September 30, 2020, GLPRF LLC was in compliance with all of its debt covenants and \$94.3 million principal amount of borrowings was outstanding under the Revolving Credit Facility.

Stockholder Distributions

We intend to continue to make quarterly distributions to our stockholders. To avoid certain excise taxes imposed on RICs, we generally endeavor to distribute during each calendar year an amount at least equal to the sum of:

- 98% of our ordinary net taxable income for the calendar year;
- 98.2% of our capital gains, if any, in excess of capital losses for the one-year period ending on October 31 of the calendar year; and

- any net ordinary income and net capital gains for the preceding year that were not distributed during such year and on which we do not pay corporate tax.

We may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, to the extent required.

The amount of our declared distributions, as evaluated by management and approved by our Board, is based primarily on our evaluation of our net investment income and distributable taxable income.

We may distribute taxable dividends that are payable in cash or shares of our common stock at the election of each stockholder. Under certain applicable provisions of the Code and the Treasury regulations, distributions payable in cash or in shares of stock at the election of stockholders are treated as taxable dividends. The Internal Revenue Service has published guidance indicating that this rule will apply even where the total amount of cash that may be distributed is limited to no more than 10% of the total distribution, for distributions declared on or before December 31, 2020, and after that, to no more than 20% of the total distribution. Under this guidance, if too many stockholders elect to receive their distributions in cash, the cash available for distribution must be allocated among the stockholders electing to receive cash (with the balance of the distribution paid in stock). If we decide to make any distributions consistent with this guidance that are payable in part in our stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend (whether received in cash, shares of our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

On October 16, 2020, our Board declared a cash distribution of \$0.06 per share of common stock, consistent with the current dividend policy. The distribution is payable on November 27, 2020 to shareholders of record at the close of business as of October 26, 2020.

As described above, we are prohibited by the 1940 Act and the indenture governing our 6.125% Notes Due 2022 from making distributions on our common stock if, at the time of declaration, our asset coverage, as defined in the 1940 Act, is below 150% (subject to any exemptive relief granted to us by the SEC and (ii) no-action relief granted by the SEC to another BDC (or to the Company if it determines to seek such similar no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act in order to maintain its status as a RIC under the Code). In any such event, we would be prohibited from making distributions required in order to maintain our status as a RIC unless made in accordance with any such exemptive or no-action relief granted by the SEC.

The following table sets forth the quarterly distributions paid by us since 2018.

	Distribution	Declaration Date	Record Date	Pay Date
2020:				
Third quarter	0.06	8/5/2020	8/17/2020	8/28/2020
Second quarter	0.06	3/17/2020	5/7/2020	5/27/2020
First quarter	0.06	2/5/2020 ¹	2/18/2020	2/28/2020
Total declared in 2020	<u>\$ 0.18</u>			
2019:				
Fourth quarter	\$ 0.06	11/5/2019	11/15/2019	11/29/2019
Third quarter	0.06	8/5/2019	8/12/2019	8/29/2019
Second quarter	0.10	3/20/2019	4/5/2019	4/26/2019
First quarter	0.10	12/12/2018 ¹	1/7/2019	1/31/2019
Total declared in 2019	<u>\$ 0.32</u>			
2018:				
Fourth quarter	\$ 0.10	9/18/2018	10/9/2018	10/29/2018
Third quarter	0.10	6/19/2018	7/6/2018	7/27/2018
Second quarter	0.10	3/20/2018	4/6/2018	4/27/2018
First quarter	0.10	12/13/2017 ¹	1/5/2018	1/25/2018
Total declared in 2018	<u>\$ 0.40</u>			

Stock Repurchase Program

On March 5, 2020, the Board of Directors of the Company approved a \$10 million stock repurchase program (the “Stock Repurchase Program”). Under this repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise subject to any law or agreement to which we are party including any restrictions under the 1940 Act and in the indenture for our 6.125% Notes Due 2022. The timing and actual number of shares repurchased will depend on a variety of factors, including legal requirements, price, and economic and market conditions. This Stock Repurchase Program may be suspended or discontinued at any time. Subject to these restrictions, we will selectively pursue opportunities to repurchase shares which are accretive to net asset value per share.

During the three and nine months ended September 30, 2020, the Company repurchased 358,959 and 734,403 shares, respectively, under the Stock Repurchase Program in open market transactions at an aggregate cost of approximately \$456 thousand and \$863 thousand, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

From time-to-time we are a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of our investment in portfolio companies. Such instruments include commitments to extend credit and may involve, in varying degrees, elements of credit risk in excess of amounts recognized on our balance sheet. Prior to extending such credit, we attempt to limit our credit risk by conducting extensive due diligence, obtaining collateral where necessary and negotiating appropriate financial covenants. As of September 30, 2020 and December 31, 2019, we had approximately \$26.5 million and \$31.9 million commitments to fund investments, respectively. However, at September 30, 2020 only \$2.4 million of our Debt Securities Portfolio is subject to a unilateral draw right by the borrower and the remaining commitments are subject to certain restrictions such as borrowing base, use of proceeds or leverage that must be satisfied before a borrower can draw down on the commitment. We may also enter into derivative contracts with off-balance sheet risk in connection with its investing activities.

We have made an aggregate commitment to the BCP Great Lakes Partnership of \$50 million, subject to certain limitations (including that we are not obligated to fund capital calls if such funding would cause us to be out of compliance with certain provisions of the Investment Company Act of 1940). As of September 30, 2020 and December 31, 2019, we had a \$19.9 million and \$26.3 million, respectively unfunded commitment to the BCP Great Lakes Partnership, subject to the limitations noted above. However, at September 30, 2020 our funding commitment was limited to approximately \$4.9 million pursuant to the limitations described above.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual cash obligations and other commercial commitments as of September 30, 2020:

Contractual Obligations	Payments Due by Period				
	Total	Less than one year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations	\$ 171,046,874	\$ —	\$ 76,725,975	\$ 94,320,899	\$ —

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management’s most difficult, complex, or subjective judgments. Our critical accounting policies are those applicable to the basis of presentation, valuation of investments, and certain revenue recognition matters as discussed below. See Note 2 to our consolidated financial statements, “Significant Accounting Policies — Investments” contained elsewhere herein.

Valuation of Portfolio Investments

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

Value, as defined in Section 2(a)(41) of 1940 Act, is (1) the market price for those securities for which a market quotation is readily available and (2) for all other securities and assets, fair value as determined in good faith by our Board pursuant to procedures approved by our Board. Our valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio based on the nature of the security, the market for the security and other considerations including the financial performance and enterprise value of the portfolio company. Because of the inherent uncertainty of valuation, the Board determined values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Pursuant to ASC 946: Financial Services — Investment Companies (“ASC 946”), we reflect our investments on our balance sheet at their determined fair value with unrealized gains and losses resulting from changes in fair value reflected as a component of unrealized gains or losses on our statements of operations. Fair value is the amount that would be received to sell the investments in an orderly transaction between market participants at the measurement date (i.e., the exit price).

See Note 4 to the consolidated financial statements for the additional information about the level of market observability associated with investments carried at fair value.

We follow the provisions of ASC 820: Fair Value Measurements and Disclosures (“ASC 820: Fair Value”), which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. This standard defines fair value and establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820: Fair Value defines “fair value” as 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. This fair value definition focuses on an exit price in the principle, or most advantageous market, and prioritizes, within a measurement of fair value, the use of market-based inputs (which may be weighted or adjusted for relevance, reliability and specific attributes relative to the subject investment) over entity-specific inputs. 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. Subsequent to the adoption of ASC 820: Fair Value, the FASB has issued various staff positions clarifying the initial standard (see Note 2 to the consolidated financial statements: “Significant Accounting Policies — Investments”).

ASC 820: Fair Value establishes the following three-level hierarchy, based upon the transparency of inputs to the fair value measurement of an asset or liability as of the measurement date:

- Level I – Unadjusted quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed securities. As required by ASC 820: Fair Value, we do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably affect the quoted price.
- Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Such inputs may be quoted prices for similar assets or liabilities, quoted markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full character of the financial instrument, or inputs that are derived principally from, or corroborated by, observable market information. Investments which are generally included in this category include illiquid debt securities and less liquid, privately held or restricted equity securities, for which some level of recent trading activity has been observed.
- Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs may be based on our own assumptions about how market participants would price the asset or liability or may use Level II inputs, as adjusted, to reflect specific investment attributes relative to a broader market assumption. These inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data for comparable performance or valuation measures (earnings multiples, discount rates, other financial/valuation ratios, etc.) are available, such investments are grouped as Level III if any significant data point that is not also market observable (private company earnings, cash flows, etc.) is used in the valuation methodology.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. We assess the significance of a particular input to the fair value measurement in its entirety requires judgment, and we consider factors specific to the investment. The majority of our investments are classified as Level III. We evaluate the source of inputs,

including any markets in which its investments are trading, in determining fair value. Inputs that are backed by actual transactions, those that are highly correlated to the specific investment being valued and those derived from reliable or knowledgeable sources will tend to have a higher weighting in determining fair value. Our fair value determinations may include factors such as an assessment of each underlying investment, its current and prospective operating and financial performance, consideration of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, performance factors, and other investment or industry specific market data, among other factors.

We have valued our investments, in the absence of observable market prices, using the valuation methodologies described below applied on a consistent basis. For some investments, little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of management's judgment.

Our investments in CLO Fund Securities are carried at fair value, which is based either on (i) the present value of the net expected cash inflows for interest income and principal repayments from underlying assets and the cash outflows for interest expense, debt paydown and other fund costs for the CLO Funds which are approaching or past the end of their reinvestment period and therefore are selling assets and/or using principal repayments to pay-down CLO Fund debt, and for which there continue to be net cash distributions to the class of securities we own, or (ii) a discounted cash flow model that utilizes prepayment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar securities or preferred shares to those in which the we have invested, or (iii) indicative prices provided by the underwriters or brokers who arrange CLO Funds. We recognize unrealized appreciation or depreciation on our investments in CLO Fund Securities as comparable yields in the market change and/or based on changes in net asset values or estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund Securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool are updated and the revised cash flows are used in determining the fair value of the CLO Fund Securities. We determine the fair value of our investments in CLO Fund Securities on a security-by-security basis.

Our investments in our wholly-owned Asset Manager Affiliates are carried at fair value, which is primarily determined utilizing a discounted cash flow model which incorporates different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance ("Discounted Cash Flow"). Such valuation takes into consideration an analysis of comparable asset management companies and a percentage of assets under management. The Asset Manager Affiliates are classified as a Level III investment (as described above). Any change in value from period to period is recognized as net change in unrealized appreciation or depreciation.

We carry investments in joint ventures at fair value based upon the fair value of the investments held by the joint venture.

Fair values of other investments for which market prices are not observable are determined by reference to public market or private transactions or valuations for comparable companies or assets in the relevant asset class and/or industry when such amounts are available. Generally, these valuations are derived by multiplying a key performance metric of the investee company or asset (e.g., EBITDA) by the relevant valuation multiple observed for comparable companies or transactions, adjusted by management for differences between the investment and the referenced comparable. Such investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value. If the fair value of such investments cannot be valued by reference to observable valuation measures for comparable companies, then the primary analytical method used to estimate the fair value is a discounted cash flow method and/or cap rate analysis. A sensitivity analysis is applied to the estimated future cash flows using various factors depending on the investment, including assumed growth rates (in cash flows), capitalization rates (for determining terminal values) and appropriate discount rates to determine a range of reasonable values or to compute projected return on investment.

For bond rated note tranches of CLO Fund securities (those above the junior class) without transactions to support a fair value for the specific CLO Fund and tranche, fair value is based on discounting estimated bond payments at current market yields, which may reflect the adjusted yield on the leveraged loan index for similarly rated tranches, as well as prices for similar tranches for other CLO Funds and also other factors such as indicative prices provided by underwriters or brokers who arrange CLO Funds, and the default and recovery rates of underlying assets in the CLO Fund, as may be applicable. Such model assumptions may vary and incorporate adjustments for risk premiums and CLO Fund specific attributes.

We derive fair value for our illiquid loan investments that do not have indicative fair values based upon active trades primarily by using the Income Approach, and also consider recent loan amendments or other activity specific to the subject asset as described above. Other significant assumptions, such as coupon and maturity, are asset-specific and are noted for each investment in the Schedules of Investments.

The determination of fair value using this methodology takes into consideration a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. This valuation methodology involves a significant degree of our judgment.

Our Board may consider other methods of valuation to determine the fair value of investments as appropriate in conformity with GAAP.

Interest Income

Interest income, including amortization of premium and accretion of discount and accrual of PIK interest, is recorded on the accrual basis to the extent that such amounts are expected to be collected. We generally place a loan on non-accrual status and cease recognizing interest income on such loan or security when a loan or security becomes 90 days or more past due or if we otherwise do not expect the debtor to be able to service its debt obligations. For investments with PIK interest, which represents contractual interest accrued and added to the principal balance that generally becomes due at maturity, we will not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible (i.e. via a partial or full non-accrual). Loans which are on partial or full non-accrual remain in such status until the borrower has demonstrated the ability and intent to pay contractual amounts due or such loans become current. As of September 30, 2020, eight of our investments were on non-accrual status.

Investment Income on CLO Fund Securities

We receive distributions from our investments in the most junior class of securities of CLO Funds (typically preferred shares or subordinated securities). Our CLO Fund junior class securities are subordinated to senior note holders who typically receive a return on their investment at a fixed spread relative to the LIBOR index. The CLO Funds are leveraged funds and any excess cash flow or “excess spread” (interest earned by the underlying securities in the fund less payments made to senior note holders and less fund expenses and management fees) is paid to the holders of the CLO Fund’s subordinated securities or preferred shares. The level of excess spread from CLO Fund Securities can be impacted from the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund note liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly. In addition, the failure of CLO Funds in which we invest to comply with certain financial covenants may lead to the temporary suspension or deferral of cash distributions to us.

GAAP-basis investment income on CLO equity investments is recorded using the effective interest method in accordance with the provisions of ASC 325-40, 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 projected future 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 prospectively over the remaining life of the investment from the date the estimated yield was changed. Accordingly, investment income recognized on CLO equity securities in the GAAP statement of operations differs from both the tax-basis investment income and from the cash distributions actually received by us during the period.

For non-junior class CLO Fund Securities interest is earned at a fixed spread relative to the LIBOR index.

Distributions from Asset Manager Affiliates

We record any distributions from our Asset Manager Affiliates on the declaration date, which represents the ex-dividend date. Any distributions in excess of tax-basis earnings and profits are recorded as tax-basis return of capital. For interim periods, we estimate the tax attributes of any distributions as being either from tax-basis earnings and profits (i.e. dividend income) or return of capital (i.e. adjustment to our cost basis in the Asset Manager Affiliates). The final determination of the tax attributes of any distributions from our Asset Manager Affiliates is made on an annual (full calendar year) basis at the end of the year based upon taxable income and distributions for the full-year. Therefore, any estimate of tax attributes of any distributions made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year.

Payment in Kind Interest

We may have loans in our portfolio that contain a payment-in-kind (“PIK”) provision. PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our RIC status, this non-cash source of income must be distributed to stockholders in the form of cash dividends, even though we have not yet collected any cash.

Fee Income

Fee income includes fees, if any, for due diligence, structuring, commitment and facility fees, and fees, if any, for transaction services and management services rendered by us to portfolio companies and other third parties. Commitment and facility fees are

generally recognized as income over the life of the underlying loan, whereas due diligence, structuring, transaction service and management service fees are generally recognized as income when the services are rendered.

Management Compensation

As a result of the Closing we will no longer issue stock options or restricted stock under the Equity Incentive Plan or the 2008 Non-Employee Director Plan. The 1940 Act does not permit externally managed investment companies and BDCs to issue or have outstanding options or restricted stock granted to directors and employees. Immediately prior to the Closing, by virtue of the Externalization and subject to the execution of an option cancellation agreement, each option to purchase shares of our common stock granted under our 2008 Non-Employee Director Plan that was outstanding immediately prior to the Externalization (each, a “Company Stock Option”) was cancelled in exchange for the payment in cash to the holder thereof.

Immediately prior to the Closing, each restricted share of our (the “Company Restricted Share”) outstanding and not previously forfeited under the Company’s Equity Incentive Plan and the Company’s Non-Employee Director Plan became fully vested, all restrictions with respect to such Company Restricted Shares lapsed, and the holders of such Company Restricted Shares became entitled to receive a pro rata share of the payment made to stockholders in connection with the Externalization.

United States Federal Income Taxes

We have elected to be treated as a RIC and intend to continue to qualify for the tax treatment applicable to RICs under Subchapter M of the Code and, among other things, intends to make the required distributions to our stockholders as specified therein. In order to qualify for tax treatment as a RIC, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. 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 distributions into the next tax year and pay a 4% excise tax on such income, to the extent required.

Distributions to Shareholders

The amount of our declared distributions, as evaluated by management and approved by our Board, is based primarily on our evaluation of net investment income and distributable taxable income.

On October 16, 2020, our Board declared a cash distribution of \$0.06 per share of common stock, consistent with the current dividend policy. The distribution is payable on November 27, 2020 to shareholders of record at the close of business as of October 26, 2020.

The following table sets forth the quarterly distributions paid by us for the 2020, 2019 and 2018 calendar years.

	Distribution	Declaration Date	Record Date	Pay Date
2020:				
Third quarter	0.06	8/5/2020	8/17/2020	8/28/2020
Second quarter	0.06	3/17/2020	5/7/2020	5/27/2020
First quarter	0.06	2/5/2020 ¹	2/18/2020	2/28/2020
Total declared in 2020	\$ 0.18			
2019:				
Fourth quarter	\$ 0.06	11/5/2019	11/15/2019	11/29/2019
Third quarter	0.06	8/5/2019	8/12/2019	8/29/2019
Second quarter	0.10	3/20/2019	4/5/2019	4/26/2019
First quarter	0.10	12/12/2018 ¹	1/7/2019	1/31/2019
Total declared in 2019	\$ 0.32			
2018:				
Fourth quarter	\$ 0.10	9/18/2018	10/9/2018	10/29/2018
Third quarter	0.10	6/19/2018	7/6/2018	7/27/2018
Second quarter	0.10	3/20/2018	4/6/2018	4/27/2018
First quarter	0.10	12/13/2017 ¹	1/5/2018	1/25/2018
Total declared in 2018	\$ 0.40			

¹ Since the record date of this distribution is subsequent to year-end, it is a subsequent year tax event.

RECENT DEVELOPMENTS

On October 28, 2020 we completed the GARS Acquisition, pursuant to the terms and conditions of the GARS Merger Agreement. To effect the acquisition, a wholly owned merger subsidiary of ours merged with and into GARS, with GARS surviving the merger as our wholly owned subsidiary. Immediately thereafter and as a single integrated transaction, GARS consummated a second merger, whereby GARS merged with and into us, with us surviving the merger. Under the terms of the GARS Merger Agreement, each share of common stock, par value \$0.001 per share, of GARS (the “GARS Common Stock”) issued and outstanding was converted into the right to receive (i) an amount in cash, without interest, equal to approximately \$1.19 and (ii) approximately 1.917 shares of common stock, par value \$0.01 per share, of the Company (plus any applicable cash in lieu of fractional shares). Each share of GARS Common Stock issued and outstanding received, as additional consideration funded by the Adviser, an amount in cash, without interest, equal to approximately \$0.31.

On September 22, 2020, putative GARS stockholder Kenneth Bachmeier filed a complaint on behalf of himself and all others similarly situated in the Delaware Court of Chancery, captioned *Bachmeier v. Tansey, et al.*, No. 2020-0812-SG (Del. Ch.). On September 23, 2020, (i) putative GARS stockholder Ricardo Rodriguez filed a complaint in the United States District Court for the Eastern District of New York, captioned *Rodriguez v. Garrison Capital Inc., et al.*, No. 1:20-cv-04512 (E.D.N.Y.) and (ii) putative GARS stockholder Steve Schnipper Individual 401(k) filed a complaint in the United States District Court for the Southern District of New York, captioned *Steve Schnipper Individual 401(k) Cust v. Garrison Capital Inc., et al.*, No. 1:20-cv-07838 (S.D.N.Y.). On September 24, 2020, putative GARS stockholder Edward Smith filed a complaint on behalf of himself and all others similarly situated in the United States District Court for the District of Delaware, captioned *Smith v. Garrison Capital Inc., et al.*, No. 1:20-cv-01290 (D. Del.). On September 25, 2020, putative GARS stockholder Jerome Williams filed a complaint in the United States District Court for the Southern District of New York, captioned *Williams v. Garrison Capital, Inc., et al.*, No. 1:20-cv-07955 (S.D.N.Y.). On September 29, 2020, putative GARS stockholder Stephen Bushansky filed a complaint in the United States District Court for the Southern District of New York, captioned *Bushansky v. Garrison Capital Inc., et al.*, No. 1:20-cv-08055 (S.D.N.Y.). These lawsuits are collectively referred to as the “Merger Litigation”. The Merger Litigation alleges breach of fiduciary duty claims against the board of directors of GARS and/or violations of sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) against GARS, the board of directors of GARS and, with respect to one lawsuit (*Smith*), us and our wholly owned merger subsidiary, in connection with the solicitation of stockholder approval of the GARS Acquisition. The claims against us are made as a purported “control person” of GARS under Section 20(a) of the Exchange Act. The Merger Litigation alleges, among other things, that the proxy statement GARS issued seeking approval of the GARS Acquisition omitted certain information that the plaintiffs claim is material. The plaintiffs in the Merger Litigation sought to enjoin the merger or, in the alternative, an award of recessionary damages, as well as costs and fees. We and the other defendants believe that the claims in the Merger Litigations are wholly without merit, that GARS had previously disclosed all information required to be disclosed to ensure that its stockholders could make an informed vote at its special meeting, and that the additional disclosures requested by the plaintiffs were immaterial. As reported more fully in a Form 8-K dated October 2, 2020, in an attempt to reduce the costs, risks and uncertainties inherent in litigation and to maximize GARS’ net asset value at the time of the merger, a supplemental set of disclosures was also issued. On November 4, 2020, the lawsuit brought against us (*Smith*) was voluntarily dismissed by the applicable Plaintiffs.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our business activities contain elements of market risks. We consider our principal market risks to be fluctuations in interest rates and the valuations of our investment portfolio. 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, 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 and originate loans and securities and the value of our investment portfolio.

Our investment income is affected by fluctuations in various interest rates, including LIBOR and prime rates. As of September 30, 2020, approximately 93% of our Debt Securities Portfolio were floating rate with a spread to an interest rate index such as LIBOR or the prime rate, and 76% of these floating rate loans contain LIBOR floors ranging between 1.00% and 2.00%. We generally expect that future portfolio investments will predominately be floating rate investments. As of September 30, 2020, we had \$171.0 million (par value) of borrowings outstanding at a current weighted average rate of 4.5%, of which \$76.7 million par value had a fixed rate and \$94.3 million par value has a floating rate.

Because we borrow money to make investments, our net investment income is dependent upon the difference between our borrowing rate and the rate we earn on the invested proceeds borrowed. In periods of rising or lowering interest rates, the cost of the portion of our debt associated with our 6.125% Notes Due 2022 would remain the same, given that this debt is at a fixed rate, while the interest rate on borrowings under the Revolving Credit Facility would fluctuate with changes in interest rates.

Generally, we would expect that an increase in the base rate index for our floating rate investment assets would increase our gross investment income and that a decrease in the base rate index for such assets would decrease our gross investment income (in either case, such increase/decrease may be limited by interest rate floors/minimums for certain investment assets).

We have analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that our balance sheet at September 30, 2020 was to remain constant and no actions were taken to alter the existing interest rate sensitivity, the table below illustrates the impact on net investment income on our Debt Securities Portfolio for various hypothetical increases in interest rates:

	Impact on net investment income from a change in interest rates at:		
	1%	2%	3%
Increase in interest rate	\$ 1,055,561	\$ 2,217,893	\$ 4,148,996
Decrease in interest rate	\$ (160,797)	\$ (374,340)	\$ (374,340)

As shown above, net investment income assuming a 1% increase in interest rates would increase by approximately \$1.1 million on an annualized basis. If the increase in rates was more significant, such as 2% or 3%, the net effect on net investment income would be an increase of approximately \$2.2 million and \$4.1 million, respectively.

On an annualized basis, a decrease in interest rates of 1%, 2% and 3% would result in a decrease in net investment income of approximately \$0.2 million, \$0.4 million and \$0.4 million, respectively. The effect on net investment income from declines in interest rates impacted by interest rate floors on certain of our floating rate investments, as there is no floor on our floating rate debt facility.

Although management believes that this measure is indicative of sensitivity to interest rate changes on our Debt Securities Portfolio, 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 affect a net change in assets resulting from operations or net income. 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 pursuant to a valuation methodology approved by our Board. Investments for which market quotations are generally readily available are generally valued at such market quotations. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board under a valuation policy and consistently applied valuation process. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ materially from the values that

would have been used had a ready market existed for such investments. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the value 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 and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly-traded securities, recent sales of or offers to buy comparable companies, and other relevant factors.

The Company has engaged an independent valuation firm to provide third party valuation consulting services to the Board. Each quarter, the independent valuation firm will perform third party valuations on the Company's material investments in illiquid securities such that they are reviewed at least once during a trailing 12-month period. These third-party valuation estimates were considered as one of the relevant data inputs in the Company's determination of fair value. The Company intends to continue to engage an independent valuation firm in the future to provide certain valuation services, including the review of certain portfolio assets, as part of the quarterly and annual year-end valuation process.

Item 4. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 5. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of various members of management, including its Chief Executive Officer ("CEO") and its Chief Financial Officer ("CFO"), has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Acts recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the period ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 1. Legal Proceedings

Other than as described above under “Recent Developments,” the Company is not currently a party to any material legal proceedings.

Item 1A. Risk Factors

Other than the items noted below, there have been no material changes during fiscal 2019 to the risk factors that were included in our Annual Report on Form 10-K for the year ended December 31, 2019.

Major public health issues, and specifically the novel coronavirus COVID-19, could have an adverse impact on our financial condition and results of operations and other aspects of our business.

We are closely monitoring developments related to the COVID-19 pandemic to assess its impact on our and our portfolio companies’ business; while, due to the evolving and highly uncertain nature of this event, it currently is not possible to estimate its impact precisely, the COVID-19 pandemic could impact our business, financial condition, results of operations, liquidity or prospects and those of our portfolio companies in a number of ways. For instance, our investment portfolio (and, specifically, the valuations of investment assets we hold) has been, and may continue to be, adversely affected as a result of market developments from the COVID-19 pandemic and uncertainty regarding its outcome. Moreover, changes in interest rates, reduced liquidity or a continued slowdown in U.S. or global economic conditions may also adversely affect our business, financial condition, results of operations, liquidity or prospects and those of our portfolio companies. Further, extreme market volatility may leave us and our portfolio companies unable to react to market events in a prudent manner consistent with our historical practices in dealing with more orderly markets. Although it is impossible to predict with certainty the full magnitude of the business and economic ramifications, COVID-19 has impacted, and may further impact, our business in various ways, including but not limited to:

- From an operational perspective, our Adviser’s employees, as well as the workforces of our vendors, service providers and counterparties, may also be adversely affected by the COVID-19 pandemic or efforts to mitigate the pandemic, including government-mandated shutdowns, requests or orders for employees to work remotely, and other social distancing measures, which could result in an adverse impact on our ability to conduct our business;
- While the market dislocation caused by COVID-19 may present attractive investment opportunities, due to increased volatility in the financial markets, we may not be able to complete those investments;
- If the impact of COVID-19 continues, we may have more limited opportunities to successfully exit existing investments, due to, among other reasons, lower valuations, decreased revenues and earnings, or lack of potential buyers with financial resources to pursue an acquisition, resulting in a reduced ability to realize value from such investments;
- Our portfolio companies are facing or may face in the future increased credit and liquidity risk due to volatility in financial markets, reduced revenue streams, and limited or higher cost of access to preferred sources of funding, which may result in write-downs or write-offs in the value of our investments. Changes in the debt financing markets are impacting, or, if the volatility in financial market continues, may in the future impact, the ability of our portfolio companies to meet their respective financial obligations;
- Borrowers of loans, notes and other credit instruments in our portfolio may be unable to meet their principal or interest payment obligations or satisfy financial covenants, resulting in a decrease in value of our investments and lower-than-expected return. In addition, for variable interest instruments, lower reference rates resulting from government stimulus programs in response to COVID-19 could lead to lower interest income;
- Many of our portfolio companies operate in industries that are materially impacted by COVID-19, including but not limited to healthcare, travel, entertainment and hospitality. Many of these companies are facing operational and financial hardships resulting from the spread of COVID-19 and related governmental measures, such as the closure of stores, restrictions on travel, quarantines or stay-at-home orders. If the disruptions caused by COVID-19 continue and such measures are not lifted, the businesses of these portfolio companies could suffer materially or become insolvent, which would decrease the value of our investments;
- An extended period of remote working by our Adviser’s employees could strain its technology resources and introduce operational risks, including heightened cybersecurity risk. Remote working environments may be less secure and more susceptible to hacking attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic; and

- COVID-19 presents a significant threat to our Adviser’s employees’ well-being and morale. While our Adviser has implemented a business continuity plan to protect the health of its employees and has contingency plans in place for key employees or executive officers who may become sick or otherwise unable to perform their duties for an extended period of time, such plans cannot anticipate all scenarios, and our Adviser may experience potential loss of productivity or a delay in the roll out of certain strategic plans.

We are currently operating in a period of capital markets disruption and economic uncertainty.

The U.S. capital markets have experienced extreme volatility and disruption following the global outbreak of COVID-19 that began in December 2019. Some economists and major investment banks have expressed concern that the continued spread of the virus globally could lead to a world-wide economic downturn. Disruptions in the capital markets have increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. These and future market disruptions and/or illiquidity would be expected to have an adverse effect on our business, financial condition, results of operations and cash flows. Unfavorable economic conditions also would be expected to increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events have limited and could continue to limit our investment originations, limit our ability to grow and have a material negative impact on our operating results and the fair values of our debt and equity investments.

If the current period of capital market disruption and instability continues for an extended period of time, there is a risk that investors in our equity securities may not receive distributions consistent with historical levels or at all or that our distributions may not grow over time and a portion of our distributions may be a return of capital.

Although we have historically paid distributions to our stockholders, we cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions going forward. Our ability to pay distributions has been, and may continue to be, adversely affected by the impact of one or more of the risk factors described in this report or in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, including the COVID-19 pandemic described above. For example, if the temporary closure of many corporate offices, retail stores, and manufacturing facilities and factories in the jurisdictions, including the United States, affected by the COVID-19 pandemic were to continue for an extended period of time it could result in reduced cash flows to us from our existing portfolio companies, which could reduce cash available for distribution to our stockholders. If we are unable to satisfy the asset coverage test applicable to us under the 1940 Act as a BDC or if we violate certain covenants under our existing or future credit facilities or other borrowing arrangements, we may be limited in our ability to make distributions in the future. If we declare a distribution, we may be forced to sell some of our investments in order to make cash distribution payments. To the extent we make distributions to stockholders that include a return of capital, such portion of the distribution essentially constitutes a return of the stockholder’s investment. Although such return of capital may not be taxable, such distributions would generally decrease a stockholder’s basis in our common stock and may therefore increase such stockholder’s tax liability for capital gains upon the future sale of such stock. A return of capital distribution may cause a stockholder to recognize a capital gain from the sale of our common stock even if the stockholder sells its shares for less than the original purchase price.

In addition to the foregoing, the pandemic is exacerbating many of the other risks described in our Annual Report on Form 10-K for the year ended December 31, 2019.

After the consummation of the GARS Acquisition, we will hold investments in a collateralized loan obligation vehicle, which investments are subject to a number of significant risks.

GARS directly owns all of the subordinated notes issued as part of the 2018-2 CLO (as defined below) (the “Subordinated Notes”), and after the consummation of the GARS Acquisition, we will consolidate the financial statements of the 2018-2 CLO in our financial statements and treat the Subordinated Notes as leverage. “2018-2 CLO” refers to the \$420.0 million collateralized loan obligation (“CLO”) completed on October 18, 2018 by Garrison Funding 2018-2 Ltd., an exempted company incorporated with limited liability under the laws of the Cayman Islands and Garrison Funding 2018-2 LLC, a Delaware limited liability company and wholly-owned subsidiary of Garrison Funding 2018-2 Ltd.

Investments in CLOs, including an investment in the 2018-2 CLO, involve a number of significant risks, including:

- CLOs typically are comprised of a portfolio of senior secured loans; payments on CLO investments are and will be payable solely from the cash-flows from such senior secured loans;
- CLO investments are exposed to leveraged credit risk;
- CLO Funds are highly leveraged;
- there is the potential for interruption and deferral of cash-flow from CLO investments;
- interest rates paid by corporate borrowers are subject to volatility;
- the inability of a CLO collateral manager to reinvest the proceeds of the prepayment of senior secured loans may adversely affect us;
- our CLO investments are subject to prepayments and calls, increasing re-investment risk;
- we have limited control of the administration and amendment of senior secured loans owned by the CLOs in which we invest;
- we have limited control of the administration and amendment of any CLO in which we invest;

- senior secured loans of CLOs may be sold and replaced resulting in a loss to us;
- our financial results may be affected adversely if one or more of our significant equity or junior debt investments in a CLO vehicle defaults on its payment obligations or fails to perform as we expect; and
- non-investment grade debt involves a greater risk of default and higher price volatility than investment grade debt.

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

On July 27, 2017, the Financial Conduct Authority (“FCA”) announced that it would phase out the London Interbank Offered Rate (“LIBOR”) as a benchmark by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021 and the FCA has indicated that market participants should not rely on LIBOR being available after 2021. As an alternative to LIBOR, for example, the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S.-dollar LIBOR with the Secured Overnight Financing Rate (“SOFR”), a new index calculated by short-term repurchase agreements, backed by Treasury securities. Abandonment of or modifications to LIBOR could have adverse impacts on newly issued financial instruments and our existing financial instruments which reference LIBOR. While some instruments may contemplate a scenario where LIBOR is no longer available by providing for an alternative rate setting methodology, not all instruments may have such provisions and there is significant uncertainty regarding the effectiveness of any such alternative methodologies. Abandonment of or modifications to LIBOR could lead to significant short-term and long-term uncertainty and market instability. If LIBOR ceases to exist, we and our portfolio companies may need to amend or restructure our existing LIBOR-based debt instruments and any related hedging arrangements that extend beyond 2021, which may be difficult, costly and time consuming. In addition, from time to time we invest in floating rate loans and investment securities whose interest rates are indexed to LIBOR. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR, or any changes announced with respect to such reforms, may result in a sudden or prolonged increase or decrease in the reported LIBOR rates and the value of LIBOR-based loans and securities, including those of other issuers we or our funds currently own or may in the future own. It remains uncertain how such changes would be implemented and the effects such changes would have on us, issuers of instruments in which we invest and financial markets generally.

The expected discontinuation of LIBOR could have a significant impact on our business. The dollar amount of our outstanding debt investments and borrowings that are linked to LIBOR with maturity dates after the anticipated discontinuation date of 2021 is material. We anticipate significant operational challenges for the transition away from LIBOR including, but not limited to, amending existing loan agreements with borrowers on investments that may have not been modified with fallback language and adding effective fallback language to new agreements in the event that LIBOR is discontinued before maturity. Beyond these challenges, we anticipate there may be additional risks to our current processes and information systems that will need to be identified and evaluated by us. Due to the uncertainty of the replacement for LIBOR, the potential effect of any such event on our cost of capital and net investment income cannot yet be determined. In addition, the cessation of LIBOR could:

- Adversely impact the pricing, liquidity, value of, return on and trading for a broad array of financial products, including any LIBOR-linked securities, loans and derivatives that are included in our assets and liabilities;
- Require extensive changes to documentation that governs or references LIBOR or LIBOR-based products, including, for example, pursuant to time-consuming renegotiations of existing documentation to modify the terms of outstanding investments;
- Result in inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with one or more alternative reference rates;
- Result in disputes, litigation or other actions with portfolio companies, or other counterparties, regarding the interpretation and enforceability of provisions in our LIBOR-based investments, such as fallback language or other related provisions, including, in the case of fallbacks to the alternative reference rates, any economic, legal, operational or other impact resulting from the fundamental differences between LIBOR and the various alternative reference rates;
- Require the transition and/or development of appropriate systems and analytics to effectively transition our risk management processes from LIBOR-based products to those based on one or more alternative reference rates, which may prove challenging given the limited history of the proposed alternative reference rates; and
- Cause us to incur additional costs in relation to any of the above factors.

There is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers, any of which could have a material adverse effect on our business, result of operations, financial condition, and unit price.

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

While we did not engage in any sales of unregistered securities during the nine months ended September 30, 2020, we issued a total of 73,787 shares of common stock under our dividend reinvestment plan (“DRIP”). This issuance was not subject to the registration requirements of the Securities Act of 1933. For the nine months ended September 30, 2020, the aggregate value of the shares of our common stock issued under our DRIP was approximately \$104,000.

The following table sets forth information regarding repurchases of shares of our common stock during the nine months ended September 30, 2020:

	<u>Total Number of Shares Purchased</u>	<u>Average Price per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (Dollars in Thousands) (a)</u>
March 1-March 31, 2020	121,548	\$ 1.01	121,548	\$ 9,877
April 1-June 30, 2020	253,896	\$ 1.12	253,896	\$ 9,593
July 1-September 30, 2020	358,959	\$ 1.27	358,959	\$ 9,137
Total, September 30, 2020	734,403		734,403	

- (a) On March 5, 2020, the Board of Directors of the Company approved a \$10 million stock repurchase program (the “Stock Repurchase Program”). Under this repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise subject to any law or agreement to which we are party including any restrictions in the 1940 Act or the indenture for our 6.125% Notes Due 2022. The timing and actual number of shares repurchased will depend on a variety of factors, including legal requirements, price, and economic and market conditions. This Stock Repurchase Program may be suspended or discontinued at any time. Subject to these restrictions, we will selectively pursue opportunities to repurchase shares which are accretive to net asset value per share.

As permitted by our policies and procedures governing transactions in our securities by our directors, executive officers and other employees, from time to time some of these persons may establish plans or arrangements complying with Rule 10b5-1 under the Exchange Act, and similar plans and arrangements relating to our common stock

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Reference is made to the Exhibit List filed as a part of this report beginning on page E-1. Each of such exhibits is incorporated by reference herein.

Exhibit Index

Exhibit Number	Description of Document
2.1	Agreement and Plan of Merger, dated as of June 24, 2020 by and among Portman Ridge Finance Corporation, Citadel Acquisition Sub Inc., Garrison Capital Inc. and Sierra Crest Investment Management LLC (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K, as filed on June 24, 2020).
3.1	Form of Certificate of Incorporation of Company (incorporated by reference to the exhibit included in Pre-Effective Amendment No. 1 on Form N-2, as filed on October 6, 2006).
3.1.1	Certificate of Amendment to Certificate of Incorporation of Portman Ridge Finance Corporation (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, as filed on April 2, 2019).
3.2	Second Amended and Restated Bylaws of KCAP Financial, Inc., dated as of December 12, 2018 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, as filed on December 14, 2018).
3.2.1	Amendment No. 1 to the Second Amended and Restated Bylaws of Portman Ridge Finance Corporation (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K, as filed on April 2, 2019).
31.1**	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer Pursuant to 18 U. S. C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer Pursuant to 18 U. S. C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

** Submitted herewith.

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

I, Edward Goldthorpe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 of Portman Ridge Finance Corporation (the “registrant”);

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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its 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 consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2020

By: _____ / S / EDWARD GOLDTHORPE
Edward Goldthorpe
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Edward U. Gilpin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 of Portman Ridge Finance Corporation (the “registrant”);

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2020

By: _____ / S / EDWARD U. GILPIN
Edward U. Gilpin
Chief Financial Officer
(Principal 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**

In connection with the accompanying Quarterly Report of Portman Ridge Finance Corporation the “Company”) on Form 10-Q for the quarter ended September 30, 2020 (the “Report”), I, Edward U. Gilpin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2020

By:

/ S / EDWARD U. GILPIN

Edward U. Gilpin
Chief Financial Officer
(Principal Financial Officer)