

GSC INVESTMENT CORPORATION

**Moderator: Rick Allorto
January 15, 2010
9:00 am CT**

Operator: Welcome to today's GSC Investment Corporation Third Quarter Fiscal 2010 Financial Results conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Rick Allorto, the company's Chief Financial Officer. Please go ahead, sir.

Rick Allorto: Thank you. I would like to welcome everyone to GSC Investment Corp's third quarter fiscal 2010 earnings conference call.

Before we begin, I need to remind everyone that this conference call contains statements that, to the extent they are not recitations of historical fact constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Actual outcomes and results could differ materially from those forecast due to the impact of many factors. We do not undertake to update our forward-looking statements unless required by law.

The third quarter 2010 shareholder presentation is available in the investor relations section of our Website at www.gscinvestmentcorp.com.

I would now like to introduce our Chief Executive Officer Seth Katzenstein, who will be making a few introductory remarks.

Seth Katzenstein: Thank you, Rick and welcome to all of our shareholders.

During our fiscal third quarter ended November 30, we observed a broadening of the economy's modest recovery. While economic activity remains at a low level, we have seen an increase from prior periods and as a result, credit spreads have tightened considerably and the credit markets are continuing to stabilize. While these developments have been encouraging to the long term prospects of our business, we continue to face the cumulative effects of the recession on our portfolio companies and, as a result, we believe the logical path is to continue with capital preservation and debt reduction.

On November 13, 2009, we declared a dividend of \$1.825 per share payable on December 31, 2009. Shareholders had the option to receive the payment of the dividend in cash, shares of common stock or a combination of cash and shares of common stock; provided the aggregate cash payable to all shareholders was limited to \$2.1 million or \$0.25 per share.

Based on shareholder election, the dividend consisted of \$2.1 million in cash and approximately 8.6 million shares of common stock representing 104% of our outstanding common stock prior to the dividend payment. The number of shares of common stock comprising the stock portion was calculated based on a price of approximately \$1.51 per share which equals the volume weighted average trading price per share of the common stock on December 24 and 28, 2009.

The dividend includes the balance of the company's fiscal 2009 taxable income and a significant portion of the company's fiscal 2010 taxable income.

As discussed on previous conference calls, we are continuing to identify and evaluate strategic opportunities. These discussions are ongoing as we actively consider and evaluate potential paths towards maximizing long term shareholder value.

As you are aware, Federal Securities laws limit the amount and type of information we can disclose about such opportunities, but we will provide additional information as events warrant. We remind you that there is no guarantee that any transaction will be consummated.

I will return later with a review of our portfolio, but I would now like to turn the call back over to Rick to review our third quarter financial results.

Rick Allorto: Thank you, Seth.

GSC Investment Corp.'s net income for the third quarter ended November 30, 2009 was \$9.1 million or \$1.01 per share. Our net investment income was \$869,000 or \$0.10 per share and our net gain on investments was \$8.3 million or \$0.91 per share.

Our net asset value per share was \$3.80 at November 30th compared to \$6.91 per share at August 31st. The decrease in NAV per share from August 31 was primarily the result of the distribution of 8.6 million shares of common stock on December 31 for the stock portion of the dividend declared on November 13th.

In accordance with Generally Accepted Accounting Principles, the number of shares outstanding used to calculate the NAV per share as of November 30th was retroactively adjusted to reflect the additional shares issued as a result of the stock dividend.

Excluding the issuance of these additional shares, the NAV per share would have been \$7.76 as of November 30th.

Our total investment income for the quarter was \$3.5 million, a decrease of approximately \$2.9 million versus the third quarter of fiscal 2009. Our investment income was comprised of \$3.0 million of interest income, \$511,000 of management fee income associated with our investment in our CLO and \$57,000 of miscellaneous bank interest and fees.

The decrease in total investment income versus the third quarter of fiscal 2009 is primarily attributable to a reduction of \$1.1 million of income from our CLO, an increase of \$600,000 in the allowance for impaired loans and bonds, a decrease in market discount income and the LIBOR rate earned on floating investments between the periods of \$600,000 and finally a reduction of \$300,000 of income from investments that were sold or realized.

For the third quarter, our total operating expenses before expense waiver and reimbursement were \$2.8 million and consisted of \$1.1 million in interest and credit facility expenses, \$463,000 in base management fees, \$715,000 in professional fees, \$220,000 in insurance expenses, \$172,000 in administrator expenses and \$137,000 in director's fees and general and administrative expenses. We recorded \$172,000 in expense waiver and reimbursement for the quarter, resulting in total operating expenses after expense waiver and reimbursement of \$2.7 million.

This is an increase in total operating expenses after expense waiver reimbursement of \$188,000 versus the third quarter of fiscal 2009. The increase is primarily attributable to the increase in interest expense due to the continuing default [under our credit facility]. For the third quarter, our average cost of funds was 9.25% versus 3.99% for the prior year. The increase was also attributable to \$500,000 of non-recurring legal and professional fees associated with the evaluation of strategic transaction opportunities. The increase was partially offset by a decrease in base and incentive management fees for the quarter.

For the quarter, we reported net unrealized appreciation of \$8.8 million. Contributing to this appreciation were write ups in our investments in the CLO equity of \$8.1 million, Worldwide Express of \$635,000 and McMillin Companies of \$613,000. Partially offsetting these write ups were write downs in our investment in Legacy Cabinets of \$1.1 million, Energy Alloys of \$674,000, Jason Incorporated of \$645,000 and Bankruptcy Management of \$574,000.

The write up in our investment in the CLO equity was primarily due to an increase in projected cash flows versus the prior period. The improvement in the cash flows is a result of refinancing and credit rating upgrades in certain investments and no additional defaults.

The write downs in our investments in Legacy Cabinets, Energy Alloys, Jason Incorporated and Bankruptcy Management result from declining performance and prospects for these companies that are either in the process of restructuring or have recently completed a restructuring. Additional details on unrealized gains and losses in our portfolio are available in our 10-Q and shareholder presentation which can be found on our Website.

During the third quarter, we made no investments and we had \$5.7 million in exits and repayments.

As of November 30th, we had \$43.8 million of outstanding borrowings and we continued to be in default on our credit facility.

Our lender has elected not to accelerate the obligation to date but has reserved the right to do so. As a result of the continuing default, the Company may be forced to sell its investments to raise funds to repay the outstanding amounts. Such forced sales may result in values that could be less than the carrying values reported in our financial statements. We continue to discuss possible solutions to the event of default with our lender.

Subsequent to the quarter end, we made additional repayments of \$6.3 million and our current outstanding borrowings are \$37.5 million.

Last quarter, we reported that due to adverse portfolio events in the GNV CLO, the CLO was not in compliance with certain of its overcollateralization tests and, accordingly, it did not make its scheduled equity distribution and deferred payment of subordinated management fees.

As discussed previously, during the quarter the portfolio experienced several positive events and is now in full compliance with its over collateralization tests, but is still failing its reinvestment tests. Accordingly, on the January 22nd distribution date, the company will receive \$510,000 of management fees for the current quarter and \$729,000 of accrued and unpaid subordinated management fees. Following this payment, there will be a balance of accrued and unpaid subordinated management fees of \$97,000.

Based upon our current models, we are projecting that, starting with the next quarterly distribution in April, the CLO will resume regular quarterly equity distributions. Nevertheless, the portfolio continues to be exposed to the same risks that caused the prior equity diversions: specifically the CLO's portfolio companies are subject to future downgrades and defaults.

If these events occur, the CLO may not be in compliance with its over collateralization tests, potentially resulting in diversions of the equity distribution.

That concludes my financial review. I will now turn the call back over to Seth.

Seth Katzenstein: Thank you, Rick.

Before we open to questions, I would like to review the composition and performance of our investment portfolio.

As of November 30th, 15% of our investment portfolio was invested in first lien term loans, 29% in second lien term loans and 27.5% in senior secured notes, which means more than 71% of our portfolio was invested in senior secured obligations and 21% of our portfolio was invested in the equity trench of the CLO that is collateralized by 96% senior secured, first lien term loans.

We believe that our strategy of investing in senior security investments increases the probability of meaningful recoveries in troubled investments.

Our corporate debt portfolio is diversified with investments around a variety of industries and issuers. As of November 30th, we had 38 corporate debt investments in 29 portfolio companies across 20 industries, with an average portfolio company investment of \$2.8 million.

At November 30th, there were 16 portfolio companies on our watch list, down from 17 in the prior quarter. During the quarter, we added Bankruptcy Management, Energy Alloy and Targus Group to the watch list and removed Advanstar, Lyondell Chemicals, McMillin Companies and Stronghaven.

Subsequent to the end of the quarter, we received full par repayment on our investments in GXS Worldwide and Edgen Murray, generating \$4 million in proceeds which, as previously mentioned, were used to pay down our credit facility. Additionally, these repayments increased the company's net equity by \$867,000 due to the reversal of previously recorded unrealized losses.

To give you a better sense of the portfolio restructuring activity at November 30th, 13 portfolio companies were performing with no material restructuring activity, an additional six companies have been restricted within the past year and 10 portfolio companies were actively being restructured.

Subsequent to the end of the quarter, three of the active restructurings were completed and two performing investments made full par repayments.

In closing, I would like to thank all of our shareholders for their support and I would now like to open the call for questions.

Operator: Thank you. To ask a question, please press the * key followed by the digit 1 on your touchtone telephone. If you are using a speakerphone, please make sure your mute function is turned off so that we may receive your signal. Again, that is * 1 to ask a question.

And our first question is from Greg Mason with Stifel Nicolaus.

Greg Mason: Hi, good morning. Can you talk about the borrowing base? Reading through your Q it looks like the borrowing base is \$12 million down from \$35 million last quarter. Yet it seems like you took companies off of the watch list and had write ups in the portfolio. So can you discuss the accounting between those and what caused the borrowing base to go down?

Rick Allorto: I'll take the first part, the borrowing base. The primary aspect of it is the CCC excess concentration. So, to the extent we have a CCC name that increases in value you will see it on the financials, but you won't see any incremental benefit within the borrowing base because of the excess concentration.

And as we continue to exit some positions and have repayments and refinancings from non-CCC investments, the total portfolio size shrinks and so does the CCC basket, therefore increasing the excess concentration.

Greg Mason: Were there any new companies that were downgraded to CCC in the basket?

Rick Allorto: I don't think there were any CCC downgrades. I believe we had - no, there were not.

Greg Mason: Great and Rick could you - you gave us this number but could you talk again to the CLO payment of fees, what you received from the CLO. Could you run me through those numbers again?

Rick Allorto: Sure, we haven't received it yet. The determination date has passed; the payment date is on the 22nd. And so we know what the amounts are.

We will receive the full senior and sub-fee for the current quarter, which is \$510,000. And we will receive \$729,000 of previously accrued but unpaid subordinated management fees related to prior quarters.

Greg Mason: Okay great.

Rick Allorto: And that will leave a balance of accrued sub-fees of \$97,000.

Greg Mason: Okay great. And then when the CLO resumes the cash payments in April, could you refresh my memory, does that have any impact to the income statement or are those fees already being accrued and you'll get them in cash going forward?

Rick Allorto: From the management fee perspective we continue to accrue the full senior and sub-fee so the equity turning back on is purely a working capital issue.

On the equity piece, if you recall, we accrue at the effective interest method, which last quarter was 0.09%, so effectively non-accrual.

For the current quarter with these revised and updated models, our effective interest rate is just under 11%, so we accrue at 11%. So to the extent the equity distributions are made, we will become current on that 11%, or partially current.

Greg Mason: Okay great. Thank you.

Operator: And as a reminder, that was * 1 to ask a question. And Mr. Allorto, there are no further questions by phone.

Seth Katzenstein: Well thank you for joining us today and we look forward to speaking with you when we report our year end results.

Operator: That concludes today's conference call; we thank you for your participation.

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