# 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, 2019**

☐ **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** | **20-5951150** |
| **(State or other jurisdiction of Incorporation or organization)** | **(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 | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) 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 4, 2019 was 37,371,912.

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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, 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, 2018, 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 regulatory structure and tax treatment;
- our ability to operate as a business development company ("BDC") and a regulated investment company ("RIC"), including the impact of changes in laws or regulations governing our operations or the operations of our portfolio companies;

- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of 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;
- our ability to qualify and maintain our qualification as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”), and as a BDC;
- the effect of legal, tax, and regulatory changes;
- 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; 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”, and in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. 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**

| | September 30, 2019 (unaudited) | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Investments at fair value: | | |
| Short-term investments (cost: 2019 - $23,180,863; 2018 - $44,756,478) | $ 23,180,863 | $ 44,756,478 |
| Debt securities (amortized cost: 2019 - $186,442,505; 2018 - $162,264,482) | 175,624,345 | 147,861,744 |
| CLO Fund Securities managed by affiliates (amortized cost: 2019 - $46,022,111; 2018 - $4,407,106) | 34,451,281 | 4,473,840 |
| CLO Fund Securities managed by non-affiliates (amortized cost: 2019 - $2,803,872; 2018 - $51,073,520) | 2,420,014 | 39,851,160 |
| Equity securities (cost: 2019 - $19,528,755; 2018 - $9,477,763) | 6,279,611 | 2,038,020 |
| Asset Manager Affiliates (cost: 2019 - $17,791,230; 2018 - $17,791,230) | — | 3,470,000 |
| Joint Ventures (cost: 2019 - $49,052,776; 2018 - $37,381,525) | 45,426,006 | 30,857,107 |
| Derivatives (cost: 2019 - $30,609; 2018 - $0) | 9,650 | - |
| Total Investments at Fair Value (cost: 2019 - $344,852,721; 2018 - $327,152,104) | 287,391,771 | 273,308,349 |
| Cash | 341,166 | 5,417,125 |
| Restricted cash | 1,010,578 | 3,907,341 |
| Interest receivable | 1,248,372 | 1,342,970 |
| Due from affiliates | 670,946 | 1,007,631 |
| Operating lease right-of-use asset | 1,602,077 | — |
| Other assets | 900,830 | 481,265 |
| Total Assets | $ 293,165,740 | $ 285,464,681 |
| **LIABILITIES** | | |
| 6.125% Notes Due 2022 (net of offering costs of: 2019-$1,793,546; 2018 - $2,207,341) | $ 75,613,654 | $ 75,199,858 |
| Great Lakes KCAP Funding I, LLC Revolving Credit Facility (net of offering costs of: 2019-$1,154,688; 2018 - $1,155,754) | 46,865,797 | 25,200,331 |
| Operating lease liability | 3,265,081 | — |
| Payable for open trades | 31,489,007 | 23,204,564 |
| Accounts payable and accrued expenses | 1,439,062 | 3,591,910 |
| Accrued interest payable | 262,964 | 131,182 |
| Due to affiliates | 481,163 | 115,825 |
| Management and incentive fees payable | 1,026,000 | — |
| Total Liabilities | 160,442,728 | 127,443,670 |
| **COMMITMENTS AND CONTINGENCIES (NOTE 8)** | | |
| **STOCKHOLDERS' EQUITY** | | |
| Common stock, par value $0.01 per share, 100,000,000 common shares authorized; 37,566,771 issued, and 37,371,912 outstanding at September 30, 2019, and 37,521,705 issued, and 37,326,846 outstanding at December 31, 2018 | 373,719 | 373,268 |
| Capital in excess of par value | 307,210,386 | 306,784,387 |
| Total distributable (loss) earnings | (174,861,093) | (149,136,644) |
| Total Stockholders' Equity | 132,723,012 | 158,021,011 |
| Total Liabilities and Stockholders' Equity | $ 293,165,740 | $ 285,464,681 |
| NET ASSET VALUE PER COMMON SHARE | $ 3.55 | $ 4.23 |

See accompanying notes to consolidated financial statements.

**PORTMAN RIDGE FINANCE CORPORATION**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(unaudited)**

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| **Investment Income:** | | | | |
| Interest from investments in debt securities | $ 3,882,096 | $ 4,487,575 | $ 10,650,753 | $ 11,796,245 |
| Payment-in-kind investment income | 311,936 | 329,365 | 325,478 | 1,061,419 |
| Interest from cash and time deposits | 13,952 | 9,767 | 66,065 | 71,183 |
| Investment income on CLO Fund Securities managed by affiliates | 1,454,086 | 1,179,463 | 3,193,840 | 4,428,032 |
| Investment income on CLO Fund Securities managed by non-affiliates | 107,889 | 94,992 | 1,894,737 | 292,694 |
| Dividends from Asset Manager Affiliates | — | 300,000 | — | 920,000 |
| Investment income - Joint Ventures | 1,300,590 | 750,000 | 3,542,257 | 2,150,000 |
| Capital structuring service fees | 5,647 | 7,588 | 116,645 | 114,097 |
| Total investment income | 7,076,196 | 7,158,750 | 19,789,775 | 20,833,670 |
| **Expenses:** | | | | |
| Management fees | 1,026,000 | — | 2,052,100 | — |
| Performance-based incentive fees | — | — | — | — |
| Interest and amortization of debt issuance costs | 2,280,627 | 1,871,187 | 6,063,984 | 5,582,467 |
| Compensation | — | 1,004,323 | 3,688,578 | 3,216,710 |
| Professional fees | 644,485 | 867,724 | 2,827,131 | 2,489,098 |
| Insurance | 129,157 | 79,152 | 577,257 | 236,900 |
| Administrative services expense | 438,502 | — | 848,102 | — |
| Other general and administrative expenses | 314,992 | 381,835 | 1,374,606 | 1,364,302 |
| Impairment of operating lease right-of-use asset | — | — | 1,431,030 | — |
| Total expenses | 4,833,763 | 4,204,221 | 18,862,788 | 12,889,477 |
| Management and performance-based incentive fees waived | — | — | — | — |
| Net Expenses | 4,833,763 | 4,204,221 | 18,862,788 | 12,889,477 |
| **Net Investment Income** | **2,242,433** | **2,954,529** | **926,987** | **7,944,193** |
| **Realized And Unrealized (Losses) Gains On Investments:** | | | | |
| Net realized (losses) gains from investment transactions | (1,176,073) | (136,766) | (16,796,465) | (137,336) |
| Net change in unrealized (depreciation) appreciation on: | | | | |
| Debt securities | (621,192) | (1,232,216) | 3,584,578 | (2,357,578) |
| Equity securities | (909,990) | (171,775) | (5,809,402) | (335,348) |
| CLO Fund Securities managed by affiliates | (2,715,673) | 682,574 | (3,330,808) | (325,678) |
| CLO Fund Securities managed by non-affiliates | 55,174 | 5,427 | 2,531,746 | 200,723 |
| Asset Manager Affiliates investments | — | (1,035,000) | — | (2,031,000) |
| Joint Venture Investments | (1,104,502) | 282,076 | 2,897,649 | (142,430) |
| Derivatives | (20,959) | — | (20,959) | — |
| Total net change in unrealized appreciation (depreciation) | (5,317,142) | (1,468,914) | (147,196) | (4,991,311) |
| Net realized and unrealized (depreciation) on investments | (6,493,215) | (1,605,680) | (16,943,661) | (5,128,647) |
| Realized losses on extinguishments of Debt | — | — | — | (169,074) |
| **Net (Decrease) Increase In Stockholders' Equity Resulting From Operations** | $ (4,250,782) | $ 1,348,849 | $ (16,016,674) | $ 2,646,472 |
| Net (Decrease) Increase In Stockholders' Equity Resulting from Operations per Common Share: | | | | |
| Basic: | $ (0.11) | $ 0.04 | $ (0.43) | $ 0.07 |
| Diluted: | $ (0.11) | $ 0.04 | $ (0.43) | $ 0.07 |
| Net Investment (Loss) Income Per Common Share: | | | | |
| Basic: | $ 0.06 | $ 0.08 | $ 0.02 | $ 0.21 |
| Diluted: | $ 0.06 | $ 0.08 | $ 0.02 | $ 0.21 |
| Weighted Average Shares of Common Stock Outstanding—Basic | 37,361,746 | 37,349,904 | 37,348,835 | 37,354,449 |
| Weighted Average Shares of Common Stock Outstanding—Diluted | 37,361,746 | 37,349,904 | 37,348,835 | 37,354,449 |

See accompanying notes to consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| **Operations:** | | |
| Net investment (loss) income | $ 926,987 | $ 7,944,193 |
| Net realized (losses) gains from investment transactions | (16,796,465) | (137,336) |
| Realized losses from extinguishments of debt | — | (169,074) |
| Net change in unrealized appreciation on investments | (147,196) | (4,991,311) |
| Net (decrease) increase in stockholders’ equity resulting from operations | (16,016,674) | 2,646,472 |
| | | |
| **Stockholder distributions:** | (9,707,773) | (11,157,327) |
| | | |
| **Capital share transactions:** | | |
| Issuance of common stock for: | | |
| Dividend reinvestment plan | 167,512 | 154,600 |
| Common stock withheld for payroll taxes upon vesting of restricted stock | — | (86,743) |
| Stock based compensation | 258,936 | 546,927 |
| Net increase in net assets resulting from capital share transactions | 426,448 | 614,784 |
| Net assets at beginning of period | 158,021,011 | 181,804,576 |
| Net assets at end of period | $ 132,723,012 | $ 173,908,505 |
| Net asset value per common share | $ 3.55 | $ 4.66 |
| Common shares outstanding at end of period | 37,371,912 | 37,349,224 |

(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)**

| | Nine Months Ended September 30, 2019 | 2018 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net (decrease) increase in stockholder's equity resulting from operations | $ (16,016,674) | $ 2,646,472 |
| Adjustments to reconcile net (decrease) increase in stockholder's equity resulting from operations to net cash (used in) provided by in operations: | | |
| Net realized losses (gains) on investment transactions | 16,796,465 | 137,336 |
| Net change in unrealized appreciation from investments | 147,196 | 4,991,311 |
| Purchases of investments | (106,626,968) | (75,550,935) |
| Proceeds from sales and redemptions of investments | 80,926,508 | 115,362,645 |
| Net accretion of investments | (5,001,145) | (5,408,308) |
| Amortization of debt issuance costs | 787,011 | 665,000 |
| Realized losses on extinguishments of debt | — | 169,074 |
| Operating lease impairment | 1,431,030 | — |
| Net amortization of operating lease | (143,016) | — |
| Payment-in-kind interest income | (325,478) | (1,061,419) |
| Stock-based compensation | 258,936 | 546,927 |
| Changes in operating assets and liabilities: | | |
| Increase (decrease) in payable for open trades | 8,284,443 | (34,215,195) |
| (Increase) Decrease in receivable for open trades | — | 2,993,750 |
| Decrease (increase) in interest and dividends receivable | 94,598 | (1,224,891) |
| Increase in accrued interest payable | 131,782 | 86,133 |
| (Increase) decrease in other assets | (419,565) | 189,737 |
| Decrease (increase) in due from affiliates | 336,685 | 308,373 |
| Increase in management and incentive fees payable | 1,026,000 | (24,956) |
| (Decrease) increase in due to affiliates | 365,338 | — |
| Decrease (increase) in accounts payable and accrued expenses | (1,777,859) | (342,250) |
| Net cash (used in) provided by operating activities | (19,724,712) | 10,268,804 |
| FINANCING ACTIVITIES: | | |
| Debt issuance costs | (372,150) | (1,459,899) |
| Common stock withheld for payroll taxes upon vesting of restricted stock | — | (86,743) |
| Distributions to stockholders | (9,540,261) | (11,002,727) |
| Repayment 7.375 Notes Due 2019 | — | (20,000,000) |
| Borrowings under Great Lakes KCAP Funding LLC, Revolving Credit Facility | 85,000,000 | 31,000,000 |
| Repayment of Great Lakes KCAP Funding LLC, Revolving Credit Facility | (63,335,599) | (8,051,806) |
| Net cash provided by (used in) financing activities | 11,751,990 | (9,601,175) |
| CHANGE IN CASH AND RESTRICTED CASH | (7,972,722) | 667,629 |
| CASH AND RESTRICTED CASH, BEGINNING OF PERIOD | 9,324,466 | 2,034,095 |
| CASH AND RESTRICTED CASH, END OF PERIOD | $ 1,351,744 | $ 2,701,724 |
| Supplemental Information: | | |
| Interest paid during the period | $ 4,772,071 | $ 4,830,690 |
| Dividends paid during the period under the dividend reinvestment plan | $ 167,512 | $ 154,600 |
| Supplemental non-cash information: | | |
| Realized loss on Asset Manager Affiliates | $ 3,470,000 | $ — |
| Initial recognition of operating lease right-of-use asset | $ 3,309,131 | $ — |
| Initial recognition for operating lease liability | $ 3,684,121 | $ — |
| Amounts per balance sheet | | |
| Cash | $ 341,166 | $ 1,713,906 |
| Restricted cash | 1,010,578 | 987,818 |
| Total Cash and Restricted cash | $ 1,351,744 | $ 2,701,724 |

See accompanying notes to consolidated financial statements.

# PORTMAN RIDGE FINANCE CORPORATION
# CONSOLIDATED SCHEDULE OF INVESTMENTS
# As of September 30, 2019
# (unaudited)

## Debt Securities Portfolio

| Portfolio Company / Principal Business | | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|---|
| Acrisure, LLC<br>Banking, Finance, Insurance & Real Estate | (8)(14) | Senior Secured Loan — 2017-2 Refinancing Term Loan (First Lien)<br>6.4% Cash, 3 month LIBOR(2.10%) + 4.25%; LIBOR Floor 1.00% , Due 11/23 | 9/30/2019 | $ 1,994,911 | $ 1,992,417 | $ 1,992,417 |
| Advanced Lighting Technologies, Inc.<br>Consumer goods: Durable | (5)(8)(13) | Junior Secured Loan — Second Lien Notes<br>19.1% PIK, 1 month LIBOR(2.10%) + -2.10%; LIBOR Floor 1.00% , Due 10/23 | 6/13/2012 | 1,163,950 | 1,069,118 | 2,474 |
| Akumin Corp.<br>Healthcare & Pharmaceuticals | (8)(14) | Senior Secured Loan — Initial Term B Loan<br>8.0% Cash, 3 month LIBOR(2.04%) + 6.00%; LIBOR Floor 1.00% , Due 5/24 | 5/31/2019 | 2,244,375 | 2,202,509 | 2,199,488 |
| Anthem Sports & Entertainment Inc.<br>Media: Broadcasting & Subscription | (8) | Senior Secured Loan — Revolving Loan<br>11.6% Cash, 3 month LIBOR(2.10%) + 9.50%; LIBOR Floor 1.00% , Due 9/24 | 9/9/2019 | 416,667 | 374,954 | 400,708 |
| Anthem Sports & Entertainment Inc.<br>Media: Broadcasting & Subscription | (8) | Senior Secured Loan — Term Loan<br>8.9% Cash, 2.8% PIK, 3 month LIBOR(2.10%) + 6.75%; LIBOR Floor 1.00% , Due 9/24 | 9/9/2019 | 4,590,686 | 4,406,856 | 4,414,862 |
| BMC Acquisition, Inc. (aka BenefitMall)<br>Banking, Finance, Insurance & Real Estate | (8)(13)(14) | Senior Secured Loan — Initial Term Loan<br>7.4% Cash, 1 month LIBOR(2.26%) + 5.17%; LIBOR Floor 1.00% , Due 12/24 | 1/2/2018 | 2,947,500 | 2,946,198 | 2,883,539 |
| BW NHHC Holdco Inc.<br>Healthcare & Pharmaceuticals | (8)(13)(14) | Senior Secured Loan — Initial Term Loan (First Lien)<br>7.1% Cash, 1 month LIBOR(2.05%) + 5.00% , Due 5/25 | 5/16/2018 | 1,975,000 | 1,951,130 | 1,793,893 |
| Carestream Health, Inc.<br>Healthcare & Pharmaceuticals | (8)(13) | Junior Secured Loan — Extended Term Loan (Second Lien)<br>11.5% Cash, 3 month LIBOR(2.04%) + 9.50%; LIBOR Floor 1.00% , Due 6/21 | 10/7/2014 | 1,510,955 | 1,500,652 | 1,480,736 |
| Child Development Schools, Inc.<br>Services: Consumer | (8)(14) | Senior Secured Loan — Term Loan<br>6.5% Cash, 1 month LIBOR(2.26%) + 4.25% , Due 5/23 | 6/6/2018 | 4,588,691 | 4,580,275 | 4,594,427 |
| Community Care Health Network, Inc. (aka Matrix Medical Network)<br>Healthcare & Pharmaceuticals | (8)(14) | Senior Secured Loan — Closing Date Term Loan<br>6.8% Cash, 1 month LIBOR(2.04%) + 4.75%; LIBOR Floor 1.00% , Due 2/25 | 2/9/2018 | 1,975,000 | 1,971,196 | 1,848,108 |

| Portfolio Company / Principal Business | | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|---|
| Corsair Gaming, Inc.<br>High Tech Industries | (8) | Junior Secured Loan — Term Loan (Second Lien)<br>10.6% Cash, 1 month LIBOR(2.10%) + 8.50%; LIBOR Floor 1.00% , Due 8/25 | 9/29/2017 | 3,000,000 | 2,966,199 | 2,947,500 |
| CSM Bakery Solutions Limited (fka CSM Bakery Supplies Limited)<br>Beverage, Food and Tobacco | (8) | Junior Secured Loan — Term Loan (Second Lien)<br>10.0% Cash, 1 month LIBOR(2.29%) + 7.75%; LIBOR Floor 1.00% , Due 7/21 | 5/23/2013 | 3,000,000 | 3,004,425 | 2,790,000 |
| Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.)<br>High Tech Industries | (8)(13)(14) | Senior Secured Loan — Term Loan<br>9.8% Cash, 3 month LIBOR(2.33%) + 7.50%; LIBOR Floor 1.50% , Due 7/24 | 12/10/2018 | 4,962,406 | 4,919,934 | 3,706,297 |
| Drilling Info Holdings, Inc.<br>High Tech Industries | (8)(13)(14) | Senior Secured Loan — 2019 Delayed Draw Term Loan (First Lien)<br>6.0% Cash, 1 month LIBOR(1.71%) + 4.25%; LIBOR Floor 1.00% , Due 7/25 | 6/27/2019 | - | (4,018) | (4,018) |
| Dun & Bradstreet Corporation, The<br>Services: Business | (8)(13)(14) | Senior Secured Loan — Initial Term Borrowing<br>7.1% Cash, 3 month LIBOR(2.05%) + 5.00% , Due 2/26 | 4/24/2019 | 5,000,000 | 5,043,750 | 5,043,750 |
| Evergreen North America Acquisition, LLC (f/k/a Industrial Services Acquisition, LLC)<br>Environmental Industries | (8)(13)(14) | Senior Secured Loan — Term Loan<br>7.1% Cash, 1 month LIBOR(2.13%) + 5.00%; LIBOR Floor 1.00% , Due 6/22 | 6/21/2016 | 1,055,593 | 1,058,611 | 1,055,593 |
| First American Payment Systems, L.P.<br>Banking, Finance, Insurance & Real Estate | (8)(13)(14) | Junior Secured Loan — Tranche B Term Loan (Second Lien)<br>12.8% Cash, 1 month LIBOR(2.31%) + 10.50%; LIBOR Floor 1.00% , Due 7/24 | 1/4/2017 | 1,500,000 | 1,471,358 | 1,458,000 |
| GI Advo Opco, LLC<br>Healthcare & Pharmaceuticals | (5)(8)(13)(14) | Senior Secured Loan — Term Loan<br>9.5% Cash, Fixed , Due 11/21 | 11/19/2015 | 180,304 | 179,431 | - |
| GK Holdings, Inc. (aka Global Knowledge)<br>Services: Business | (8)(13) | Junior Secured Loan — Initial Term Loan (Second Lien)<br>12.4% Cash, 3 month LIBOR(2.10%) + 10.25%; LIBOR Floor 1.00% , Due 1/22 | 1/30/2015 | 1,500,000 | 1,490,055 | 1,220,625 |
| Global Tel*Link Corporation<br>Telecommunications | (8)(13)(14) | Junior Secured Loan — Loan (Second Lien)<br>10.3% Cash, 1 month LIBOR(2.04%) + 8.25% , Due 11/26 | 5/21/2013 | 2,000,000 | 1,968,622 | 1,912,600 |
| Global Tel*Link Corporation<br>Telecommunications | (8)(13) | Junior Secured Loan — Loan (Second Lien)<br>10.3% Cash, 3 month LIBOR(2.04%) + 8.25% , Due 11/26 | 5/21/2013 | 5,000,000 | 4,923,901 | 4,781,500 |
| Grupo HIMA San Pablo, Inc.<br>Healthcare & Pharmaceuticals | (8)(13) | Senior Secured Loan — Term B Loan (First Lien)<br>11.3% Cash, 3 month LIBOR(2.27%) + 9.00%; LIBOR Floor 1.50% , Due 1/18 | 1/30/2013 | 2,702,232 | 2,702,232 | 2,648,188 |

| Portfolio Company / Principal Business | | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|---|
| Grupo HIMA San Pablo, Inc. Healthcare & Pharmaceuticals | (5)(8)(13) | Junior Secured Loan — Term Loan (Second Lien) 13.8% Cash, Fixed , Due 7/18 | 1/30/2013 | 7,191,667 | 7,169,109 | 4,152,201 |
| Hoffmaster Group, Inc. Forest Products & Paper | (8)(13)(14) | Junior Secured Loan — Initial Term Loan (Second Lien) 11.5% Cash, 1 month LIBOR(2.04%) + 9.50%; LIBOR Floor 1.00% , Due 11/24 | 5/6/2014 | 1,600,000 | 1,569,078 | 1,525,481 |
| Idera, Inc. High Tech Industries | (8)(14) | Junior Secured Loan — Loan (Second Lien) 11.1% Cash, 3 month LIBOR(2.05%) + 9.00%; LIBOR Floor 1.00% , Due 6/27 | 6/27/2019 | 7,500,000 | 7,390,709 | 7,387,500 |
| Infobase Holdings, Inc. High Tech Industries | (8)(13)(14) | Senior Secured Loan — Term Loan 6.6% Cash, 1 month LIBOR(2.16%) + 4.47%; LIBOR Floor 1.00% , Due 12/22 | 12/13/2017 | 3,940,135 | 3,911,704 | 3,916,314 |
| Ivanti Software, Inc. (fka LANDesk Group, Inc.) High Tech Industries | (8)(13) | Junior Secured Loan — Loan (Second Lien) 11.1% Cash, 1 month LIBOR(2.05%) + 9.00%; LIBOR Floor 1.00% , Due 1/25 | 3/10/2017 | 3,228,619 | 3,228,619 | 3,194,396 |
| Kellermeyer Bergensons Services, LLC Services: Business | (8) | Senior Secured Loan — 2018 Replacement Term Loan (First Lien) 6.8% Cash, 1 month LIBOR(2.10%) + 4.71%; LIBOR Floor 1.00% , Due 10/21 | 10/31/2014 | 2,077,713 | 2,075,765 | 2,064,623 |
| Kronos Foods Corp Beverage, Food and Tobacco | (8)(13)(14) | Senior Secured Loan — Fourth Amendment Term Loan 6.9% Cash, 3 month LIBOR(2.10%) + 4.75% , Due 9/22 | 6/27/2019 | 4,968,553 | 4,922,680 | 4,918,868 |
| Navex Topco, Inc. Electronics | (8)(13)(14)(19) | Junior Secured Loan — Initial Term Loan (Second Lien) 9.1% Cash, 3 month LIBOR(2.13%) + 7.00% , Due 9/26 | 12/4/2018 | 3,000,000 | 2,972,114 | 2,973,750 |
| PHI Group, Inc. Transportation: Cargo | (8)(14) | Senior Secured Loan — Loan 9.0% Cash, 3 month LIBOR(2.04%) + 7.00%; LIBOR Floor 1.00% , Due 9/24 | 7/10/2019 | 8,675,847 | 8,502,331 | 8,502,331 |
| Pinstripe Holdings, LLC (Aka Cielo) Services: Business | (8)(13)(14) | Senior Secured Loan — Initial Term Loan 8.1% Cash, 3 month LIBOR(2.05%) + 6.00%; LIBOR Floor 1.00% , Due 1/25 | 1/17/2019 | 4,975,000 | 4,886,642 | 4,883,460 |
| Playpower, Inc. Construction & Building | (8)(13)(14) | Senior Secured Loan — Initial Term Loan 7.6% Cash, 3 month LIBOR(2.10%) + 5.50% , Due 5/26 | 6/23/2015 | 1,520,277 | 1,528,417 | 1,491,999 |
| PSC Industrial Holdings Corp. Environmental Industries | (8)(13) | Junior Secured Loan — Initial Term Loan (Second Lien) 10.5% Cash, 1 month LIBOR(2.03%) + 8.50%; LIBOR Floor 1.00% , Due 10/25 | 10/5/2017 | 3,000,000 | 2,953,158 | 2,941,194 |

| Portfolio Company / Principal Business | | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|---|
| PVHC Holding Corp<br>Containers, Packaging and Glass | (8)(13)(14) | Senior Secured Loan — Initial Term Loan<br>6.9% Cash, 1 month LIBOR(2.10%) + 4.75%; LIBOR Floor 1.00% , Due 8/24 | 8/10/2018 | 2,851,200 | 2,839,628 | 2,623,104 |
| Radiology Partners, Inc.<br>Healthcare & Pharmaceuticals | (8)(14) | Senior Secured Loan — Term B Loan (First Lien)<br>6.8% Cash, 3 month LIBOR(2.00%) + 4.75% , Due 7/25 | 9/30/2019 | 2,984,906 | 2,951,325 | 2,958,778 |
| Radius Aerospace, Inc.<br>Aerospace and Defense | (8)(13)(14) | Senior Secured Loan — Initial Term Loan<br>7.9% Cash, 3 month LIBOR(2.10%) + 5.75%; LIBOR Floor 1.00% , Due 3/25 | 6/27/2019 | 6,965,000 | 6,865,059 | 6,935,747 |
| Ravn Air Group, Inc.<br>Aerospace and Defense | (8)(13)(14) | Senior Secured Loan — Initial Term Loan<br>7.1% Cash, 1 month LIBOR(2.11%) + 5.00%; LIBOR Floor 1.00% , Due 7/21 | 7/29/2015 | 1,814,498 | 1,814,498 | 1,814,498 |
| Robertshaw US Holding Corp. (fka Fox US Bidco Corp.)<br>Capital Equipment | (8)(13) | Junior Secured Loan — Initial Term Loan (Second Lien)<br>10.1% Cash, 1 month LIBOR(2.06%) + 8.00%; LIBOR Floor 1.00% , Due 2/26 | 2/15/2018 | 3,000,000 | 2,975,905 | 2,757,468 |
| Roscoe Medical, Inc.<br>Healthcare & Pharmaceuticals | (5)(8)(13)(14) | Junior Secured Loan — Term Loan (Second Lien)<br>13.3% Cash, Fixed , Due 3/21 | 3/26/2014 | 5,000,000 | 4,995,555 | 2,708,841 |
| Roscoe Medical, Inc.<br>Healthcare & Pharmaceuticals | (5)(8)(13) | Junior Secured Loan — Term Loan (Second Lien)<br>13.3% Cash, Fixed , Due 3/21 | 3/26/2014 | 1,700,000 | 1,698,486 | 921,006 |
| Salient CRGT Inc.<br>High Tech Industries | (8)(13)(14) | Senior Secured Loan — Initial Term Loan<br>8.1% Cash, 1 month LIBOR(2.05%) + 6.00%; LIBOR Floor 1.00% , Due 2/22 | 2/27/2017 | 1,803,408 | 1,816,631 | 1,716,123 |
| SCSG EA Acquisition Company, Inc.<br>Healthcare & Pharmaceuticals | (8)(14) | Junior Secured Loan — Initial Term Loan (Second Lien)<br>10.5% Cash, 1 month LIBOR(2.32%) + 8.17%; LIBOR Floor 1.00% , Due 9/24 | 8/18/2017 | 5,000,000 | 4,964,793 | 4,975,000 |
| SCSG EA Acquisition Company, Inc.<br>Healthcare & Pharmaceuticals | (8) | Junior Secured Loan — Initial Term Loan (Second Lien)<br>10.5% Cash, 1 month LIBOR(2.32%) + 8.17%; LIBOR Floor 1.00% , Due 9/24 | 8/18/2017 | 1,000,000 | 992,356 | 995,000 |
| SOS Security Holdings LLC<br>Services: Business | (8)(14) | Senior Secured Loan — Term Loan<br>8.8% Cash, 3 month LIBOR(2.26%) + 6.50%; LIBOR Floor 1.00% , Due 4/25 | 6/5/2019 | 2,493,750 | 2,470,123 | 2,452,104 |
| Syndigo LLC<br>Services: Business | (8)(14) | Senior Secured Loan — Incremental Term Loan<br>7.5% Cash, 3 month LIBOR(2.04%) + 5.50% , Due 10/24 | 8/23/2019 | 7,937,071 | 7,780,530 | 7,778,330 |
| Tailwind Randys, LLC<br>Automotive | (8)(14) | Senior Secured Loan — Initial Term Loan<br>7.6% Cash, 3 month LIBOR(2.10%) + 5.50%; LIBOR Floor 1.00% , Due 5/25 | 6/27/2019 | 4,987,500 | 4,903,922 | 4,887,750 |

| Portfolio Company / Principal Business | | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|---|
| Tank Partners Equipment Holdings LLC<br>Energy: Oil & Gas | (5)(8)(13) | Senior Unsecured Bond — 10.000% - 02/2022 - TankConvert<br>0.0% Cash, 10.0% PIK, Due 2/22 | 2/15/2019 | 632,924 | 620,145 | 532,267 |
| Teneo Holdings LLC<br>Services: Business | (8)(14) | Senior Secured Loan — Initial Term Loan (First Lien)<br>7.3% Cash, 1 month LIBOR(2.04%) + 5.25%; LIBOR Floor 1.00% , Due 7/25 | 8/23/2019 | 5,000,000 | 4,803,630 | 4,800,000 |
| Tex-Tech Industries, Inc.<br>Textiles and Leather | (8)(13) | Junior Secured Loan — Term Loan (Second Lien)<br>11.0% Cash, 1 month LIBOR(2.04%) + 9.00%; LIBOR Floor 1.00% , Due 8/24 | 8/24/2017 | 12,508,000 | 12,383,112 | 12,257,840 |
| Time Manufacturing Acquisition, LLC<br>Capital Equipment | (8)(13)(14) | Senior Secured Loan — Term Loan<br>7.1% Cash, 1 month LIBOR(2.13%) + 5.00%; LIBOR Floor 1.00% , Due 2/23 | 2/3/2017 | 3,419,837 | 3,421,112 | 3,444,207 |
| TLE Holdings, LLC<br>Healthcare, Education and Childcare | (8)(13)(14) | Senior Secured Loan — Delayed Draw Term Loan<br>7.7% Cash, 3 month LIBOR(2.20%) + 5.50%; LIBOR Floor 1.00% , Due 6/24 | 6/27/2019 | 207,901 | 206,241 | 207,069 |
| TLE Holdings, LLC<br>Healthcare, Education and Childcare | (8)(13)(14) | Senior Secured Loan — Initial Term Loan<br>7.7% Cash, 3 month LIBOR(2.20%) + 5.50%; LIBOR Floor 1.00% , Due 6/24 | 3/29/2019 | 5,703,351 | 5,678,203 | 5,680,538 |
| TronAir Parent Inc.<br>Aerospace and Defense | (8)(13)(14) | Senior Secured Loan — Initial Term Loan (First Lien)<br>6.9% Cash, 1 month LIBOR(2.18%) + 4.75%; LIBOR Floor 1.00% , Due 9/23 | 9/30/2016 | 979,798 | 978,100 | 945,995 |
| TRSO I, Inc.<br>Energy: Oil & Gas | (8)(13) | Junior Secured Loan — Term Loan (Second Lien)<br>14.0% Cash, 3 month LIBOR(1.00%) + 13.00%; LIBOR Floor 1.00% , Due 12/19 | 12/24/2012 | 1,000,000 | 999,343 | 1,000,000 |
| WireCo WorldGroup Inc.<br>Capital Equipment | (8)(13) | Junior Secured Loan — Initial Term Loan (Second Lien)<br>11.0% Cash, 3 month LIBOR(2.04%) + 9.00%; LIBOR Floor 1.00% , Due 9/24 | 8/9/2016 | 3,000,000 | 2,971,831 | 2,878,193 |
| Zest Acquisition Corp.<br>Healthcare, Education and Childcare | (8)(13)(19) | Junior Secured Loan — Initial Term Loan (Second Lien)<br>9.7% Cash, 1 month LIBOR(2.18%) + 7.50%; LIBOR Floor 1.00% , Due 3/26 | 3/8/2018 | 3,500,000 | 3,481,846 | 3,231,683 |
| **Total Investment in Debt Securities (132% of net asset value at fair value)** | | | | **$ 188,475,225** | **$ 186,442,505** | **$ 175,624,345** |

## Equity Securities Portfolio

| Portfolio Company / Principal Business | Investment[15] | Initial Acquisition Date | Percentage Ownership/Shares | Cost | Fair Value[2] |
|---|---|---|---|---|---|
| AAPC Holdings LLC.(8)(13) 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)(20) Consumer goods: Durable | Warrant | 6/13/2012 | 1.90% | - | 1,000 |
| Advanced Lighting Technologies, Inc.(8)(13)(20) Consumer goods: Durable | Membership Interests | 6/13/2012 | 0.40% | 181,999 | 1,000 |
| Anthem Sports & Entertainment Inc. (8)(13)(20) Media: Broadcasting & Subscription | Warrant Class A, 9/29 maturity | 9/9/2019 | 0.50% | 45,914 | 45,914 |
| Anthem Sports & Entertainment Inc. (8)(13)(20) Media: Broadcasting & Subscription | Warrant Class B, 9/29 maturity | 9/9/2019 | 0.50% | - | - |
| Anthem Sports & Entertainment Inc. (8)(13)(20) Media: Broadcasting & Subscription | Warrant Common Stock, 9/29 maturity | 9/9/2019 | 0.50% | - | - |
| Caribe Media Inc. (fka Caribe Information Investments Incorporated)(8)(13)(20) Media: Advertising, Printing & Publishing | Common | 12/18/2006 | 1.17% | 359,765 | 98,827 |
| eInstruction Acquisition, LLC(8)(13)(20) Services: Business | Membership Units | 7/2/2007 | 1.10% | 1,079,617 | 1,000 |
| FP WRCA Coinvestment Fund VII, Ltd.(3)(13)(20) Capital Equipment | Class A Shares | 2/2/2007 | 0.41% | 1,500,000 | 541,500 |
| New Millennium Holdco, Inc. (Millennium Health, LLC)(8)(13)(20) Healthcare & Pharmaceuticals | Common | 10/7/2014 | 0.20% | 1,953,299 | 1,000 |
| Roscoe Investors, LLC(8)(13)(20) Healthcare & Pharmaceuticals | Class A Units | 3/26/2014 | 1.56% | 1,000,000 | — |
| Tank Partners Equipment Holdings, LLC(8)(9)(10)(13)(20) Energy: Oil & Gas | Class A Units | 8/28/2014 | 48.5% | 6,228,000 | - |
| Ohene Holdings B.V.(13)(20) Services: Business | Warrants | 3/31/2019 | 0.2% | — | 1,000 |
| TRSO II, Inc.(8)(13)(20) Energy: Oil & Gas | Common Stock | 12/24/2012 | 5.40% | 1,680,161 | 88,369 |
| **Total Investment in Equity Securities (5% of net asset value at fair value)** | | | | **$ 19,528,755** | **$ 6,279,611** |

## CLO Subordinated Investments

| Portfolio Company | Investment[15,11] | Initial Acquisition Date | Percentage Ownership | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|
| Katonah III, Ltd.(3)(12)(13) | Subordinated Securities, effective interest N/M, 5/15 maturity (16) | 12/11/2006 | 23.1% | $ 1,287,155 | $ 487,508 |
| Catamaran CLO 2013- 1 Ltd.(3)(6)(13)(19) | Subordinated Securities, effective interest 21.1%, 1/28 maturity | 6/4/2013 | 23.3% | 6,294,986 | 6,268,534 |
| Catamaran CLO 2014-1 Ltd.(3)(6)(13)(19) | Subordinated Securities, effective interest 12.6%, 4/30 maturity | 5/6/2014 | 22.2% | 10,192,718 | 8,302,955 |
| Dryden 30 Senior Loan Fund(3)(13) | Subordinated Securities, effective interest 29.0%, 12/29 maturity | 10/10/2013 | 6.8% | 1,516,717 | 1,932,505 |
| Catamaran CLO 2014-2 Ltd.(3)(6)(13)(19) | Subordinated Securities, effective interest 4.7%, 11/25 maturity | 8/15/2014 | 24.9% | 6,132,465 | 1,221,236 |
| Catamaran CLO 2015-1 Ltd.(3)(6)(13)(19) | Subordinated Securities, effective interest 12.5%, 10/26 maturity | 5/5/2015 | 9.9% | 4,190,443 | 2,856,878 |
| Catamaran CLO 2016-1 Ltd.(3)(6)(13)(19) | Subordinated Securities, effective interest 9.9%, 4/27 maturity | 12/21/2016 | 24.9% | 9,440,106 | 6,854,783 |
| Catamaran CLO 2018-1 Ltd(3)(6)(13)(19) | Subordinated Securities, effective interest 13.3%, 10/31 maturity | 9/27/2018 | 24.8% | 9,771,393 | 8,946,896 |
| **Total Investment in CLO Fund Securities (28% of net asset value at fair value)** | | | | **$ 48,825,983** | **$ 36,871,295** |

## Asset Manager Affiliates

| Portfolio Company / Principal Business | Investment[15] | Initial Acquisition Date | Percentage Ownership | Cost | Fair Value |
|---|---|---|---|---|---|
| Asset Manager Affiliates(8)(9)(13)(17) | 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 |
|---|---|---|---|---|---|
| Advantage Capital Holdings LLC.(13) Banking, Finance, Insurance & Real Estate | Securities Swap and Option Agreement | 9/30/2019 | | $ - | $ (20,959) |
| Anthem Sports & Entertainment Inc. (13) Media: Broadcasting & Subscription | Call Option | 9/9/2019 | | 30,609 | 30,609 |
| **Total Derivatives (0% of net asset value at fair value)** | | | | **$ 30,609** | **$ 9,650** |

**Joint Ventures**

| Portfolio Company / Principal Business | Investment[15] | Initial Acquisition Date | Percentage Ownership | Cost | Fair Value |
|---|---|---|---|---|---|
| KCAP Freedom 3 LLC(9)(13) | Joint Venture | 7/19/2017 | 60% | $ 24,914,858 | $ 21,235,739 |
| BCP Great Lakes Holdings LP(9)(10)(17)(18) Limited Partnership | Joint Venture | 12/11/2018 | 48% | 24,137,918 | 24,190,267 |
| **Total Investment in Joint Ventures (34% of net asset value at fair value)** | | | | **$ 49,052,776** | **$ 45,426,006** |

## 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 | 0.20% | $ 13,181,681 | $ 13,181,681 |
| US Treasury Bill (Cusip:9127965L4)(8) | U.S. Government Obligation | | 1.50% | $ 9,999,183 | 9,999,183 |
| **Total Short-term Investments (17% of net asset value at fair value)** | | | | **$ 23,180,863** | **$ 23,180,863** |
| **Total Investments[4]** | | | | **$ 344,852,721** | **$ 287,391,771** |

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 loan. For each such loan, the Company has provided the weighted average annual stated interest rate in effect at September 30, 2019. As noted in the table above, 72% (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 September 30, 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 $345 million. The aggregate gross unrealized appreciation is approximately $0.2 million, the aggregate gross unrealized depreciation is approximately $57.7 million, and the net unrealized depreciation is approximately $57.5 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 71.7% of the total assets at September 30, 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 Notice of redemption has been received for this security.

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

14 As of September 30, 2019, this investment is owned by Great Lakes KCAP Funding I, LLC and was pledged to secure Great Lakes KCAP Funding I, LLC's debt obligation pursuant to its senior secured revolving credit facility (the "Revolving Credit Facility") with the Company, as the servicer, certain institutional lenders, State Bank and Trust Company, as the administrative agent, lead arranger and bookrunner, and CIBC Bank USA, as documentation agent.

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 The remaining collateral in this CLO Fund portfolio is illiquid and not producing meaningful cash flows, and thus, the Company's investment in the CLO Subordinated securities are not currently receiving periodic cash distributions. Accordingly, the Company is no longer recording any investment income from these investments, and has thus noted the effective interest as not meaningful, or N/M. The fair value of the investment reflects the Company's estimated share of the fair value of the underlying collateral.

17 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.

18 Ownership of LP interest held through the holding company BCP Great Lakes Fund, L.P.

19 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.

20 Non-income producing.

See accompanying notes to consolidated financial statements.

# PORTMAN RIDGE FINANCE CORPORATION
# CONSOLIDATED SCHEDULE OF INVESTMENTS
# As of December 31, 2018

## 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.(5)(8)(13) Consumer goods: Durable | Junior Secured Loan — Second Lien Notes 9.8% Cash, 10.0% PIK, 3 month LIBOR(2.80%) + 7.00%; LIBOR Floor 1.00% , Due 10/23 | 6/13/2012 | $ 1,007,062 | $ 958,499 | $ 362,240 |
| AlixPartners, LLP(8)(13) Services: Business | Senior Secured Loan — 2017 Refinancing Term Loan 5.3% Cash, 1 month LIBOR(2.52%) + 2.75%; LIBOR Floor 1.00% , Due 4/24 | 12/28/2018 | 997,462 | 957,563 | 957,563 |
| Asurion, LLC (fka Asurion Corporation)(8)(13) Banking, Finance, Insurance & Real Estate | Senior Secured Loan — Amendment No. 14 Replacement B-4 Term Loan 5.5% Cash, 1 month LIBOR(2.52%)+ 3.00%; LIBOR Floor 1.00% , Due 8/22 | 12/28/2018 | 1,520,851 | 1,463,819 | 1,460,001 |
| BMC Acquisition, Inc. (aka BenefitMall)(8)(13)(14) Banking, Finance, Insurance & Real Estate | Senior Secured Loan — Initial Term Loan 7.8% Cash, 6 month LIBOR(2.59%) + 5.25%; LIBOR Floor 1.00% , Due 12/24 | 1/2/2018 | 2,970,000 | 2,968,502 | 2,942,082 |
| BW NHHC Holdco Inc.(8)(13)(14) Healthcare & Pharmaceuticals | Senior Secured Loan — Initial Term Loan (First Lien) 7.5% Cash, 1 month LIBOR(2.47%) + 5.00% , Due 5/25 | 5/16/2018 | 1,990,000 | 1,962,751 | 1,950,200 |
| Carestream Health, Inc.(8)(13) Healthcare & Pharmaceuticals | Junior Secured Loan — Extended Term Loan (Second Lien) 12.0% Cash, 1 month LIBOR(2.52%) + 9.50%; LIBOR Floor 1.00% , Due 6/21 | 10/7/2014 | 1,510,955 | 1,496,079 | 1,480,736 |
| Child Development Schools, Inc.(8)(13)(14) Services: Business | Senior Secured Loan — Term Loan 6.7% Cash, 3 month LIBOR(2.50%) + 4.25% , Due 5/23 | 6/6/2018 | 4,794,521 | 4,783,918 | 4,782,534 |
| Community Care Health Network, Inc. (aka Matrix Medical Network) (8)(14) Healthcare & Pharmaceuticals | Senior Secured Loan — Closing Date Term Loan 7.3% Cash, 1 month LIBOR(2.52%) + 4.75%; LIBOR Floor 1.00% , Due 2/25 | 2/9/2018 | 1,990,000 | 1,985,635 | 1,873,784 |
| Corsair Gaming, Inc.(8) High Tech Industries | Junior Secured Loan — Term Loan (Second Lien) 11.3% Cash, 3 month LIBOR(2.80%) + 8.50%; LIBOR Floor 1.00% , Due 8/25 | 9/29/2017 | 5,000,000 | 4,936,538 | 4,929,000 |
| Corsair Gaming, Inc.(8)(14) High Tech Industries | Senior Secured Loan — Term Loan (First Lien) 7.1% Cash, 3 month LIBOR(2.80%) + 4.25%; LIBOR Floor 1.00% , Due 8/24 | 9/29/2017 | 1,989,954 | 1,985,554 | 1,968,678 |

| Portfolio Company / Principal Business | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|
| CSM Bakery Solutions Limited (fka CSM Bakery Supplies Limited)(8) Beverage, Food and Tobacco | Junior Secured Loan — Term Loan (Second Lien)10.2% Cash, 3 month LIBOR(2.41%) + 7.75%; LIBOR Floor 1.00% , Due 7/21 | 5/23/2013 | 3,000,000 | 3,006,304 | 2,841,300 |
| CT Technologies Intermediate Holdings, Inc. (Smart Holdings Corp.) (aka HealthPort)(8)(14) Healthcare & Pharmaceuticals | Senior Secured Loan — New Term Loan Facility 6.8% Cash, 1 month LIBOR(2.52%) + 4.25%; LIBOR Floor 1.00% , Due 12/21 | 11/19/2014 | 3,964,063 | 3,958,001 | 3,306,683 |
| Decolin Inc.(3)(13)(14) Textiles and Leather | Senior Secured Loan — Initial Term Loan 7.0% Cash, 1 month LIBOR(2.51%) + 4.50%; LIBOR Floor 1.00% , Due 12/23 | 1/26/2018 | 2,190,363 | 2,181,096 | 2,092,454 |
| Dell International L.L.C. (EMC Corporation)(8)(13) High Tech Industries | Senior Secured Loan — Refinancing Term B Loan 4.5% Cash, 1 month LIBOR(2.53%) + 2.00%; LIBOR Floor 0.75% , Due 9/23 | 12/28/2018 | 2,000,000 | 1,930,000 | 1,930,000 |
| Digitran Innovations B.V. (Pomeroy Solutions Holding Company, Inc.)(8)(13)(14) High Tech Industries | Senior Secured Loan — Term Loan 10.3% Cash, 3 month LIBOR(2.81%) + 7.50%; LIBOR Floor 1.50% , Due 7/24 | 12/10/2018 | 4,987,469 | 4,938,132 | 4,937,594 |
| Drew Marine Group Inc.(8)(13)(14) Transportation: Cargo | Junior Secured Loan — Term Loan (Second Lien) 9.5% Cash, 1 month LIBOR(2.52%) + 7.00%; LIBOR Floor 1.00% , Due 5/21 | 11/19/2013 | 4,000,000 | 4,000,634 | 4,000,400 |
| Evergreen North America Acquisition, LLC (f/k/a Industrial Services Acquisition, LLC)(8)(13)(14) Environmental Industries | Senior Secured Loan — Term Loan 7.8% Cash, 3 month LIBOR(2.81%) + 5.00%; LIBOR Floor 1.00% , Due 6/22 | 6/21/2016 | 1,103,728 | 1,107,755 | 1,103,728 |
| First American Payment Systems, L.P.(8)(13)(14) Banking, Finance, Insurance & Real Estate | Junior Secured Loan — Term Loan (Second Lien) 13.0% Cash, 3 month LIBOR(2.54%) + 10.50%; LIBOR Floor 1.00% , Due 7/24 | 1/4/2017 | 1,500,000 | 1,466,870 | 1,399,200 |
| Flexera Software LLC (fka Flexera Software, Inc.)(8) High Tech Industries | Junior Secured Loan — Initial Term Loan (Second Lien) 9.8% Cash, 1 month LIBOR(2.53%) + 7.25%; LIBOR Floor 1.00% , Due 2/26 | 1/25/2018 | 1,099,654 | 1,111,477 | 1,090,032 |
| GI Advo Opco, LLC(5)(8)(13)(14) Healthcare & Pharmaceuticals | Senior Secured Loan — Term Loan 9.5% Cash, Due 11/21 | 11/19/2015 | 180,304 | 179,431 | 117,919 |

| Portfolio Company / Principal Business | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|
| GK Holdings, Inc. (aka Global Knowledge)(8)(13) Services: Business | Junior Secured Loan — Initial Term Loan (Second Lien) 13.1% Cash, 3 month LIBOR(2.80%) + 10.25%; LIBOR Floor 1.00% , Due 1/22 | 1/30/2015 | 1,500,000 | 1,486,831 | 1,376,250 |
| Global Tel*Link Corporation(8)(13) Telecommunications | Junior Secured Loan — Loan (Second Lien) 11.0% Cash, 3 month LIBOR(2.71%) + 8.25% , Due 11/26 | 5/21/2013 | 5,000,000 | 4,915,960 | 4,912,500 |
| Global Tel*Link Corporation(8)(13)(14) Telecommunications | Junior Secured Loan — Loan (Second Lien) 11.0% Cash, 3 month LIBOR(2.71%) + 8.25% , Due 11/26 | 5/21/2013 | 2,000,000 | 1,965,349 | 1,965,000 |
| Global Tel*Link Corporation(8)(13)(14) Telecommunications | Senior Secured Loan — Term Loan (First Lien) 7.0% Cash, 3 month LIBOR(2.71%) + 4.25% , Due 11/25 | 12/7/2017 | 1,473,788 | 1,470,466 | 1,466,419 |
| Grupo HIMA San Pablo, Inc.(8)(13) Healthcare & Pharmaceuticals | Senior Secured Loan — Term B Loan (First Lien) 9.5% Cash, 3 month LIBOR(2.52%) + 7.00%; LIBOR Floor 1.50% , Due 1/18 | 1/30/2013 | 2,813,058 | 2,813,058 | 2,728,666 |
| Grupo HIMA San Pablo, Inc.(5)(13)(14) Healthcare & Pharmaceuticals | Junior Secured Loan — Term Loan (Second Lien) 13.8% Cash, Due 7/18 | 1/30/2013 | 7,191,667 | 7,169,109 | 4,789,650 |
| Harland Clarke Holdings Corp. (fka Clarke American Corp.)(8)(13)(14) Media: Advertising, Printing & Publishing | Senior Secured Loan — Initial Term Loan 7.6% Cash, 3 month LIBOR(2.80%) + 4.75%; LIBOR Floor 1.00% , Due 11/23 | 6/18/2013 | 2,817,177 | 2,836,587 | 2,564,688 |
| Hoffmaster Group, Inc.(8)(13)(14) Forest Products & Paper | Junior Secured Loan — Initial Term Loan (Second Lien) 12.0% Cash, 1 month LIBOR(2.52%) + 9.50%; LIBOR Floor 1.00% , Due 11/24 | 5/6/2014 | 1,600,000 | 1,564,583 | 1,553,920 |
| Infobase Holdings, Inc.(8)(13)(14) High Tech Industries | Senior Secured Loan — Term Loan 7.1% Cash, 3 month LIBOR(2.63%) + 4.50%; LIBOR Floor 1.00% , Due 12/22 | 12/13/2017 | 4,017,393 | 3,981,675 | 3,977,219 |
| Ion Media Networks, Inc.(8)(13) Media: Advertising, Printing & Publishing | Senior Secured Loan — Term B-3 Loan 5.3% Cash, 1 month LIBOR(2.53%) + 2.75%; LIBOR Floor 1.00% , Due 12/20 | 12/28/2018 | 3,000,000 | 2,917,500 | 2,917,500 |
| Ivanti Software, Inc. (fka LANDesk Group, Inc.)(8)(13) High Tech Industries | Junior Secured Loan — Loan (Second Lien) 11.4% Cash, 1 month LIBOR(2.35%) + 9.00%; LIBOR Floor 1.00% , Due 1/25 | 3/10/2017 | 3,228,619 | 3,228,619 | 3,071,062 |

| Portfolio Company / Principal Business | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|
| Jane Street Group, LLC(8)(13) Banking, Finance, Insurance & Real Estate | Senior Secured Loan — Dollar Term Loan (2018) 5.5% Cash, 1 month LIBOR(2.50%) + 3.00% , Due 8/22 | 12/28/2018 | 2,992,500 | 2,932,650 | 2,932,650 |
| Kellermeyer Bergensons Services, LLC(8) Services: Business | Senior Secured Loan — 2018 Replacement Term Loan (First Lien) 7.5% Cash, 3 month LIBOR(2.71%) + 4.75%; LIBOR Floor 1.00% , Due 10/21 | 10/31/2014 | 2,093,452 | 2,090,784 | 2,096,069 |
| MB Aerospace Holdings II Corp.(8)(13)(14) Aerospace and Defense | Senior Secured Loan — Initial Term Loan (First Lien) 6.0% Cash, 1 month LIBOR(2.52%) + 3.50%; LIBOR Floor 1.00% , Due 1/25 | 5/10/2013 | 1,237,500 | 1,232,118 | 1,149,390 |
| Navex Topco, Inc.(8)(13)(14) Electronics | Junior Secured Loan — Initial Term Loan (Second Lien) 9.5% Cash, 1 month LIBOR(2.53%) + 7.00% , Due 9/26 | 12/4/2018 | 3,000,000 | 3,007,500 | 3,007,500 |
| Playpower, Inc.(8)(13)(14) Construction & Building | Senior Secured Loan — Initial Term Loan (First Lien) 7.6% Cash, 3 month LIBOR(2.80%) + 4.75%; LIBOR Floor 1.00% , Due 6/21 | 6/23/2015 | 1,393,745 | 1,400,223 | 1,394,163 |
| PSC Industrial Holdings Corp.(8)(13) Environmental Industries | Junior Secured Loan — Initial Term Loan (Second Lien) 10.96% Cash, 1 month LIBOR(2.46%) + 8.50%; LIBOR Floor 1.00% , Due 10/25 | 10/5/2017 | 3,000,000 | 2,949,039 | 2,940,300 |
| PVHC Holding Corp(8)(13)(14) Chemicals, Plastics and Rubber | Senior Secured Loan — Initial Term Loan 7.57% Cash, 3 month LIBOR(2.82%) + 4.75%; LIBOR Floor 1.00% , Due 8/24 | 8/10/2018 | 2,872,800 | 2,859,340 | 2,859,872 |
| Q Holding Company (fka Lexington Precision Corporation)(8)(13)(14) Chemicals, Plastics and Rubber | Senior Secured Loan — Term B Loan 7.5% Cash, 1 month LIBOR(2.52%) + 5.00%; LIBOR Floor 1.00% , Due 12/21 | 12/16/2016 | 1,979,381 | 2,002,724 | 1,941,773 |
| Ravn Air Group, Inc.(8)(13)(14) Aerospace and Defense | Senior Secured Loan — Initial Term Loan 7.8% Cash, 3 month LIBOR(2.81%) + 5.00%; LIBOR Floor 1.00% , Due 7/21 | 7/29/2015 | 1,894,549 | 1,894,549 | 1,894,549 |
| Robertshaw US Holding Corp. (fka Fox US Bidco Corp.) (8)(13) Capital Equipment | Junior Secured Loan — Initial Term Loan (Second Lien) 10.6% Cash, 1 month LIBOR(2.56%) + 8.00%; LIBOR Floor 1.00% , Due 2/26 | 2/15/2018 | 3,000,000 | 2,973,097 | 2,775,000 |
| Roscoe Medical, Inc.(8)(13) Healthcare & Pharmaceuticals | Junior Secured Loan — Term Loan (Second Lien) 11.3% Cash, Due 9/19 | 3/26/2014 | 1,700,000 | 1,697,733 | 1,525,750 |

| Portfolio Company / Principal Business | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|
| Roscoe Medical, Inc.(8)(13)(14) Healthcare & Pharmaceuticals | Junior Secured Loan — Term Loan (Second Lien) 11.3% Cash, Due 9/19 | 3/26/2014 | 5,000,000 | 4,993,345 | 4,487,500 |
| Salient CRGT Inc.(8)(13)(14) HighTech Industries | Senior Secured Loan — Initial Term Loan, 8.3% Cash, 1 month LIBOR(2.52%) + 5.75%; LIBOR Floor 1.00% , Due 2/22 | 2/27/2017 | 1,841,753 | 1,859,440 | 1,758,874 |
| SCSG EA Acquisition Company, Inc.(8) Healthcare & Pharmaceuticals | Junior Secured Loan — Initial Term Loan (Second Lien) 10.6% Cash, 3 month LIBOR(2.40%) + 8.25%; LIBOR Floor 1.00% , Due 9/24 | 8/18/2017 | 1,000,000 | 991,195 | 990,400 |
| SCSG EA Acquisition Company, Inc.(8)(14) Healthcare & Pharmaceuticals | Junior Secured Loan — Initial Term Loan (Second Lien) 10.6% Cash, 3 month LIBOR(2.40%) + 8.25%; LIBOR Floor 1.00% , Due 9/24 | 8/18/2017 | 5,000,000 | 4,959,445 | 4,952,000 |
| Sierra Enterprises, LLC (aka Lyons Magnus)(8)(13)(14) Beverage, Food and Tobacco | Senior Secured Loan — Tranche B-1 Term Loan (First Lien) 6.0% Cash, 1 month LIBOR(2.52%) + 3.50%; LIBOR Floor 1.00% , Due 11/24 | 11/3/2017 | 2,970,056 | 2,957,029 | 2,955,206 |
| Stafford Logistics, Inc.(dba Custom Ecology, Inc.)(5)(8)(13) Environmental Industries | Junior Secured Loan — Restructured Term Loan 1.0% Cash, 8.3% PIK, 3 month LIBOR (2.80%) + 5.50% , Due 10/22 | 6/25/2013 | 2,035,770 | 1,941,220 | 560,855 |
| Stafford Logistics, Inc.(dba Custom Ecology, Inc.)(8)(13)(14) Environmental Industries | Senior Secured Loan — Term Loan 14.8% Cash, 3 month LIBOR(2.82%) + 12.00% , Due 10/22 | 6/25/2013 | 339,788 | 339,788 | 339,788 |
| Tank Partners Holdings, LLC(5)(8)(13) Energy: Oil & Gas | Senior Secured Loan — Loan 3.0% Cash, 12.5% PIK, 1 month PRIME (5.00%)+7.5%; PRIME Floor 3.00% , Due 8/19 | 8/28/2014 | 15,295,083 | 14,149,836 | 7,398,223 |
| Tex-Tech Industries, Inc.(8)(13) Textiles and Leather | Junior Secured Loan — Term Loan (Second Lien) 11.5% Cash, 1 month LIBOR (2.52%) + 9.00%; LIBOR Floor 1.00% , Due 8/24 | 8/24/2017 | 8,008,000 | 7,959,567 | 7,847,840 |
| Time Manufacturing Acquisition, LLC(8)(13)(14) Capital Equipment | Senior Secured Loan — Term Loan 7.6% Cash, 6 month LIBOR(2.63%) + 5.00%; LIBOR Floor 1.00% , Due 2/23 | 2/3/2017 | 3,446,143 | 3,447,715 | 3,430,291 |
| TronAir Parent Inc.(8)(13)(14) Aerospace and Defense | Senior Secured Loan — Initial Term Loan (First Lien) 7.6% Cash, 6 month LIBOR(2.82%) + 4.75%; LIBOR Floor 1.00% , Due 9/23 | 9/30/2016 | 987,374 | 985,337 | 954,001 |
| TRSO I, Inc.(8)(13) Energy: Oil & Gas | Junior Secured Loan — Term Loan (Second Lien) 14.0% Cash, Due 12/19 | 12/24/2012 | 1,000,000 | 997,207 | 1,000,000 |

| Portfolio Company / Principal Business | Investment Interest Rate[1] / Maturity[15] | Initial Acquisition Date | Principal | Amortized Cost | Fair Value[2] |
|---|---|---|---|---|---|
| Verdesian Life Sciences, LLC(8)(13)(14) Environmental Industries | Senior Secured Loan — Initial Term Loan 7.5% Cash, 1 month LIBOR(2.53%) + 5.00%; LIBOR Floor 1.00% , Due 7/20 | 6/25/2014 | 2,075,305 | 2,033,378 | 1,993,123 |
| Weiman Products, LLC(8)(13)(14) Consumer goods: Non-durable | Senior Secured Loan — Term Loan 7.3% Cash, 3 month LIBOR(2.80%) + 4.50%; LIBOR Floor 1.00% , Due 11/21 | 11/22/2013 | 1,440,525 | 1,434,568 | 1,440,525 |
| WireCo WorldGroup Inc. (8)(13) Capital Equipment | Junior Secured Loan — Initial Term Loan (Second Lien) 11.5% Cash, 1 month LIBOR(2.52%) + 9.00%; LIBOR Floor 1.00% , Due 9/24 | 8/9/2016 | 3,000,000 | 2,967,619 | 2,957,100 |
| Zest Acquisition Corp.(8)(13) Healthcare & Pharmaceuticals | Junior Secured Loan — Initial Term Loan (Second Lien) 10.0% Cash, 1 month LIBOR(2.45%) + 7.50%; LIBOR Floor 1.00% , Due 3/26 | 3/8/2018 | 3,500,000 | 3,479,741 | 3,430,000 |
| **(94% of net asset value at fair value)** | | | **$ 164,541,812** | **$ 162,264,482** | **$ 147,861,744** |

## Equity Securities Portfolio

| Portfolio Company / Principal Business | Investment[15] | Initial Acquisition Date | Percentage Ownership/Shares | Cost | Fair Value[2] |
|---|---|---|---|---|---|
| Advanced Lighting Technologies, Inc,(8)(13) Consumer goods: Durable | Warrants | 6/13/2012 | 1.90% | $ — | $ 1,000 |
| Advanced Lighting Technologies, Inc.(8)(13) Consumer goods: Durable | Membership Interests | 6/13/2012 | 0.40% | 181,999 | 1,000 |
| Aerostructures Holdings L.P.(8)(13) Aerospace and Defense | Partnership Interests | 2/28/2007 | 1.16% | 157,717 | 50,000 |
| Caribe Media Inc. (fka Caribe Information Investments Incorporated)(8)(13) Media: Advertising, Printing & Publishing | Common | 12/18/2006 | 1.17% | 359,765 | 108,675 |
| eInstruction Acquisition, LLC(3)(13) Services: Business | Membership Units | 7/2/2007 | 1.10% | 1,079,617 | 1,000 |
| FP WRCA Coinvestment Fund VII, Ltd.(13) Capital Equipment | Class A Shares | 2/2/2007 | 0.41% | 1,500,000 | 669,000 |
| New Millennium Holdco, Inc. (Millennium Health, LLC)(13) Healthcare & Pharmaceuticals | Common | 10/7/2014 | 0.20% | 1,953,299 | 1,000 |
| Perseus Holding Corp.(8)(13) Hotel, Gaming & Leisure | Common | 4/5/2007 | 0.19% | 400,000 | 1,000 |
| Roscoe Investors, LLC(8)(13) Healthcare & Pharmaceuticals | Class A Units | 3/26/2014 | 1.56% | 1,000,000 | 653,000 |
| Stafford Logistics, Inc.(dba Custom Ecology, Inc.)(8)(13) Environmental Industries | Class B Units | 6/25/2013 | 1.56% | — | 1,000 |
| Stafford Logistics, Inc.(dba Custom Ecology, Inc.)(8)(10)(13) Environmental Industries | Class B Equity | 6/25/2013 | 1.56% | — | 1,000 |
| Tank Partners Holdings, LLC(8)(13) Aerospace and Defense | Unit | 8/28/2014 | 15.5% | 980,000 | 1,000 |
| Tank Partners Holdings, LLC(8)(13) Aerospace and Defense | Warrants | 8/28/2014 | 1.04% | 185,205 | 1,000 |
| TRSO II, Inc.(8)(13) Energy: Oil & Gas | Common Stock | 12/24/2012 | 5.40% | 1,680,161 | 548,345 |
| **Total Investment in Equity Securities (9% of net asset value at fair value)** | | | | **$ 9,477,763** | **$ 2,038,020** |

## CLO Fund Securities

## CLO Subordinated Investments

| Portfolio Company | Investment[15,11] | Initial Acquisition Date | Percentage Ownership | Amortized Cost | Fair Value |
|---|---|---|---|---|---|
| Katonah III, Ltd.(3)(12)(13) | Subordinated Securities, effective interest N/M, 5/15 maturity[16] | 12/11/2006 | 23.1% | $ 1,287,155 | $ 369,280 |
| Catamaran CLO 2013- 1 Ltd.(3)(13) | Subordinated Securities, effective interest 21.9%, 1/28 maturity | 6/4/2013 | 23.3% | 6,378,611 | 7,016,733 |
| Catamaran CLO 2014-1 Ltd.(3)(13) | Subordinated Securities, effective interest 13.6%, 4/30 maturity | 5/6/2014 | 25.1% | 11,740,622 | 9,777,251 |
| Dryden 30 Senior Loan Fund(3)(13) | Subordinated Securities, effective interest 27.0%, 12/29 maturity | 10/10/2013 | 6.8% | 1,438,701 | 1,913,925 |
| Catamaran CLO 2014-2 Ltd.(3)(13) | Subordinated Securities, effective interest 10.4%, 11/25 maturity | 8/15/2014 | 24.9% | 6,314,484 | 2,158,200 |
| Catamaran CLO 2015-1 Ltd.(3)(13) | Subordinated Securities, effective interest 11.4%, 10/26 maturity | 5/5/2015 | 9.9% | 4,353,347 | 3,048,698 |
| Catamaran CLO 2016-1 Ltd.(3)(13) | Subordinated Securities, effective interest 9.1%, 4/27 maturity | 12/21/2016 | 24.9% | 9,717,150 | 7,067,073 |
| Catamaran CLO 2018-1 Ltd(3)(13) | Subordinated Securities, effective interest 14.5%, 10/31 maturity | 9/27/2018 | 24.8% | 9,843,450 | 8,500,000 |
| **Total Investment in CLO Subordinated Securities** | | | | **$ 51,073,520** | **$ 39,851,160** |

## CLO Rated-Note Investment

| Portfolio Company | Investment[15] | Initial Acquisition Date | Percentage Ownership | Amortized Cost | Fair Value |
|---|---|---|---|---|---|
| KCAP 2017-1A(6)(13) | Class E Notes, 10.29% Cash, 3 month LIBOR (2.79%) + 7.50%, Due 12/29 | 10/24/2017 | 27.4% | $ 4,407,106 | $ 4,473,840 |
| Total Investment in CLO Rated-Note | | | | $ 4,407,106 | $ 4,473,840 |
| **Total Investment in CLO Fund Securities (28% of net asset value at fair value)** | | | | **$ 55,480,626** | **$ 44,325,000** |

## Asset Manager Affiliates

| Portfolio Company / Principal Business | Investment[15] | Initial Acquisition Date | Percentage Ownership | Cost | Fair Value[2] |
|---|---|---|---|---|---|
| Asset Manager Affiliates(8)(13)(17) | Asset Management Company | 12/11/2006 | 100% | $ 17,791,230 | $ 3,470,000 |
| **Total Investment in Asset Manager Affiliates (2% of net asset value at fair value)** | | | | **$ 17,791,230** | **$ 3,470,000** |

## Joint Ventures

| Portfolio Company / Principal Business | Investment[15] | Initial Acquisition Date | Percentage Ownership | Cost | Fair Value |
|---|---|---|---|---|---|
| KCAP Freedom 3 LLC(9)(13) | Joint Venture | 7/19/2017 | 60% | $ 24,914,858 | $ 18,390,440 |
| BCP Great Lakes Holdings LP(17) Limited Partnership | Joint Venture | 12/11/2018 | 55.6% | 12,466,667 | 12,466,667 |
| **Total Investment in Joint Ventures (20% of net asset value at fair value)** | | | | **$ 37,381,525** | **$ 30,857,107** |

**Short-term Investments**

| Short-term Investments | Investment15 | Initial Acquisition Date | Yield | | Par /Amortized Cost | | Fair Value2 |
|---|---|---|---|---|---|---|---|
| US Bank Money Market Account(7)(8) | Money Market Account | N/A | 0.20% | $ | 34,757,129 | $ | 34,757,129 |
| US Treasury Bill (Cusip:912796UH0)(8) | U.S. Government Obligation | | 1.04% | | 9,999,349 | | 9,999,349 |
| **Total Short-term Investments (28% of net asset value at fair value)** | | | | **$** | **44,756,478** | **$** | **44,756,478** |
| **Total Investments4** | | | | **$** | **327,152,104** | **$** | **273,308,349** |

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 loan. For each such loan, the Company has provided the weighted average annual stated interest rate in effect at December 31, 2018. As noted in the table above, 81% (based on par) of debt securities contain floors which range between 0.75% and 3.00%.

2 Reflects the fair market value of all investments as of December 31, 2018, 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 $327 million. The aggregate gross unrealized appreciation is approximately $0 million, the aggregate gross unrealized depreciation is approximately $53.8 million, and the net unrealized depreciation is approximately $53.8 million.

5 Loan or debt security is on non-accrual status and therefore is considered non-income producing.

6 An affiliate CLO Fund managed by an Asset Manager Affiliate (as such term is defined in the notes to the consolidated financial statements).

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 72.0% of the total assets at December 31, 2018.

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 Notice of redemption has been received for this security.

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

14 As of December 31, 2018, this investment is owned by KCAP Funding I, LLC and was pledged to secure KCAP Funding I, LLC's debt obligation pursuant to its senior secured revolving credit facility (the "Revolving Credit Facility") with the Company, as the servicer, certain institutional lenders, State Bank and Trust Company, as the administrative agent, lead arranger and bookrunner, and CIBC Bank USA, as documentation agent.

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 The remaining collateral in these CLO Fund portfolios are illiquid and not producing meaningful cash flows, and thus, the Company's investment in the CLO Subordinated securities are not currently receiving periodic cash distributions. Accordingly, the Company is no longer recording any investment income from these investments, and has thus noted the effective interest as not meaningful, or N/M. The fair value of the investment reflects the Company's estimated share of the fair value of the underlying collateral.

17 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.

See accompanying notes to consolidated financial statements.

**PORTMAN RIDGE FINANCE CORPORATION**
**CONSOLIDATED FINANCIAL HIGHLIGHTS**
**(unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019[4]** | **2018[4]** |
| **Per Share Data:** | | |
| Net asset value, at beginning of period | $ 4.23 | $ 4.87 |
| Net investment (loss) income[1] | 0.02 | 0.21 |
| Net realized (losses) gains from investments[1] | (0.45) | (0) |
| Net change in unrealized appreciation (depreciation) on investments[1] | (0.00) | (0.13) |
| Net (decrease) increase in net assets resulting from operations | (0.43) | 0.07 |
| Net decrease in net assets resulting from distributions | (0.26) | (0.30) |
| Net increase in net assets relating to stock-based transactions | 0.01 | 0.02 |
| Net asset value, end of period | $ 3.55 | $ 4.66 |
| Total net asset value return[2] | (10.0)% | 1.8% |
| **Ratio/Supplemental Data:** | | |
| Per share market value at beginning of period | $ 3.46 | $ 3.41 |
| Per share market value at end of period | $ 2.25 | $ 3.31 |
| Total market return[3] | (27.5)% | 5.9% |
| Shares outstanding at end of period | 37,371,912 | 37,349,224 |
| Net assets at end of period | $ 132,723,012 | $ 173,908,505 |
| Portfolio turnover rate[6] | 38.0% | 39.4% |
| Asset coverage ratio | 204% | 259% |
| Ratio of net investment income to average net assets[5] | 0.9% | 6.0% |
| Ratio of total expenses to average net assets[5] | 17.3% | 9.7% |
| Ratio of interest expense to average net assets[5] | 5.6% | 4.2% |
| Ratio of non-interest expenses to average net assets[5] | 11.7% | 5.5% |

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

See accompanying notes to consolidated financial statements.

## 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. However, despite the SBCA, the Company will continue to be prohibited by the indenture governing the Company's 6.125% Notes Due 2022 (as defined and discussed in Note 6 - "Borrowings" below) from making distributions on our common stock if the Company's asset coverage, as defined in the 1940 Act, falls below 200%. In any such event, the Company would be prohibited from making distributions required in order to maintain its status as a RIC.

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, 2019, 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 cyclicality 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.

## 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, 2018, 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 and KCAP Funding I Holdings, 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 received security interests in the assets which are owned by Great Lakes KCAP Funding I, LLC 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, and KCAP Senior 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, 2019, the Company provided approximately $106.6 million to portfolio companies to support their growth objectives. Approximately $28.3 million of this support was contractually obligated. See also Note 8 – Commitments and Contingencies. As of September 30, 2019, the Company held loans it has made to 51 investee companies with aggregate principal amounts of approximately $188.5 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, 2019, 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 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.

*Pending Accounting Pronouncements*

In August 2018, the FASB issued Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). The standard will 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. Early adoption is permitted upon issuance of this ASU 2018-13. We are permitted to early adopt any removed or modified disclosures upon issuance of ASU 2018-13 and delay adoption of the additional disclosures until their effective date. We are currently evaluating the impact of adopting ASU 2018-13 on our consolidated financial statements.

***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.

*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's investments in its wholly-owned asset management companies, the Asset Manager Affiliates, are carried at fair value, which is primarily determined utilizing the discounted cash flow approach, 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. Such valuation takes into consideration an analysis of comparable asset management companies and the amount of assets under management. The Asset Manager Affiliates are classified as a Level III investment. Any change in value from period to period is recognized as net change in unrealized appreciation or depreciation. The Company sold substantially all of its investment in the Asset Manager Affiliates on December 31, 2018.

*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 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) consists of cash held for reinvestment and quarterly interest and principal distribution (if any) to holders of notes issued by Great Lakes KCAP Funding I, LLC.

*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. 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, 2019, six of our 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 in 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. The final determination of the tax attributes of distributions from the Joint Ventures is made on an annual (full calendar year) basis at year-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 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*. During the first quarter of 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. The Company continues 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, 2019 and 2018:

| | (unaudited) Three Months Ended September 30, | | (unaudited) Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net (decrease) increase in net assets resulting from operations | $ (4,250,782) | $ 1,348,849 | $ (16,016,674) | $ 2,646,472 |
| Net increase in net assets allocated to unvested share awards | — | (10,133) | — | (17,606) |
| Net (decrease) increase in net assets available to common stockholders | $ (4,250,782) | $ 1,338,716 | $ (16,016,674) | $ 2,628,866 |
| Weighted average number of common and common stock equivalent shares outstanding for diluted shares computation | 37,361,746 | 37,349,904 | 37,348,835 | 37,354,449 |
| Net (decrease) increase in net assets per basic common shares: | | | | |
| Net (decrease) increase in net assets from operations | $ (0.11) | $ 0.04 | $ (0.43) | $ 0.07 |
| Net (decrease) increase in net assets per diluted shares: | | | | |
| Net (decrease) increase in net assets from operations | $ (0.11) | $ 0.04 | $ (0.43) | $ 0.07 |

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 0 and 30,000 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, 2019 and 2018. 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, 2019 and December 31, 2018:

| | September 30, 2019 (unaudited) | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| Security Type | Cost/Amortized Cost | Fair Value | %[1] | Cost/Amortized Cost | Fair Value | %[1] |
| Short-term investments[2] | $ 23,180,863 | $ 23,180,863 | 8 | $ 44,756,478 | $ 44,756,478 | 17 |
| Senior Secured Loan | 106,682,014 | 104,599,092 | 36 | 86,040,921 | 77,616,209 | 28 |
| Junior Secured Loan | 79,140,346 | 70,492,986 | 25 | 76,223,561 | 70,245,535 | 26 |
| Senior Unsecured Bond | 620,145 | 532,267 | 0 | — | — | — |
| CLO Fund Securities | 48,825,983 | 36,871,295 | 13 | 55,480,626 | 44,325,000 | 16 |
| Equity Securities | 19,528,755 | 6,279,611 | 2 | 9,477,763 | 2,038,020 | 1 |
| Asset Manager Affiliates[3] | 17,791,230 | — | — | 17,791,230 | 3,470,000 | 1 |
| Joint Ventures | 49,052,776 | 45,426,006 | 16 | 37,381,525 | 30,857,107 | 11 |
| Derivatives | 30,609 | 9,650 | 0 | — | — | — |
| Total | $ 344,852,721 | $ 287,391,771 | 100% | $ 327,152,104 | $ 273,308,349 | 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, 2019 and December 31, 2018, were as follows:

| | September 30, 2019 (unaudited) | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| Industry Classification | Cost/Amortized Cost | Fair Value | %[1] | Cost/Amortized Cost | Fair Value | % |
| Aerospace and Defense | $ 9,657,656 | $ 9,696,240 | 3 | $ 5,434,927 | $ 4,049,940 | 1 |
| Asset Management Company [2] | 17,791,230 | — | — | 17,791,230 | 3,470,000 | 1 |
| Automotive | 4,903,922 | 4,887,750 | 2 | — | — | — |
| Banking, Finance, Insurance & Real Estate | 6,409,973 | 6,312,997 | 2 | 8,831,841 | 8,733,933 | 3 |
| Beverage, Food and Tobacco | 7,927,106 | 7,708,868 | 3 | 5,963,334 | 5,796,506 | 2 |
| Capital Equipment | 10,868,848 | 9,621,366 | 3 | 10,888,432 | 9,831,391 | 4 |
| Chemicals, Plastics and Rubber | — | — | — | 4,862,063 | 4,801,645 | 2 |
| CLO Fund Securities | 48,825,983 | 36,871,295 | 13 | 55,480,626 | 44,325,000 | 16 |
| Construction & Building | 1,528,417 | 1,491,999 | 1 | 1,400,223 | 1,394,163 | 1 |
| Consumer goods: Durable | 1,251,118 | 4,474 | 0 | 1,140,500 | 364,240 | 0 |
| Containers, Packaging and Glass | 2,839,628 | 2,623,104 | 1 | 1,434,568 | 1,440,525 | 1 |
| Electronics | 2,972,114 | 2,973,750 | 1 | 3,007,500 | 3,007,500 | 1 |
| Energy: Oil & Gas | 9,527,648 | 1,620,635 | 1 | 16,827,204 | 8,946,568 | 3 |
| Environmental Industries | 4,011,769 | 3,996,789 | 1 | 8,371,180 | 6,939,794 | 3 |
| Forest Products & Paper | 1,569,078 | 1,525,481 | 1 | 1,564,583 | 1,553,920 | 1 |
| Healthcare, Education and Childcare | 9,366,290 | 9,119,290 | 3 | — | — | — |
| Healthcare & Pharmaceuticals | 41,732,075 | 32,182,240 | 11 | 38,638,822 | 32,287,288 | 12 |
| High Tech Industries | 24,229,777 | 22,864,112 | 8 | 23,971,435 | 23,662,459 | 9 |
| Hotel, Gaming & Leisure | — | — | — | 400,000 | 1,000 | 0 |
| Joint Ventures | 49,052,776 | 45,426,006 | 16 | 37,381,525 | 30,857,107 | 11 |
| Media: Advertising, Printing & Publishing | 359,765 | 98,827 | 0 | 6,113,852 | 5,590,863 | 2 |
| Media: Broadcasting & Subscription | 4,858,333 | 4,892,093 | 2 | — | — | — |
| Services: Business | 29,630,110 | 28,244,892 | 9 | 10,398,710 | 9,213,416 | 3 |
| Services: Consumer | 4,580,275 | 4,594,427 | 2 | — | — | — |
| Telecommunications | 6,892,524 | 6,694,100 | 2 | 8,351,775 | 8,343,919 | 3 |
| Textiles and Leather | 12,383,112 | 12,257,840 | 4 | 10,140,662 | 9,940,294 | 4 |
| Money Market Accounts | 13,181,680 | 13,181,680 | 5 | 34,757,129 | 34,757,129 | 13 |
| Transportation: Cargo | 8,502,331 | 8,502,333 | 3 | 4,000,634 | 4,000,400 | 1 |
| U.S. Government Obligations | 9,999,183 | 9,999,183 | 3 | 9,999,349 | 9,999,349 | 4 |
| Total | $ 344,852,721 | $ 287,391,771 | 100% | $ 327,152,104 | $ 273,308,349 | 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 of middle market companies located outside of the United States.

At September 30, 2019 and December 31, 2018, the total amount of non-qualifying assets was approximately 28.3% and 28.0% of total assets, respectively. The majority of non-qualifying assets were foreign investments which were approximately 12.8% and 16.5%, respectively, of the Company's total assets (including the Company's investments in CLO Funds, which are typically domiciled outside the U.S. and represented approximately 12.6% and 15.5% 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.

On October 31, 2017, the Company purchased an additional $4.3 million of notional amount of subordinated notes issued by Catamaran CLO 2014-1 at a cost of $5.4 million.

In December 2017, the Company purchased an additional $201,000 of notional amount of subordinated notes issued by Catamaran CLO 2013-1 at a cost of $201,000.

In December 2017, the Company sold $5.0 million par value of the subordinated notes of Catamaran CLO 2014-1 for $3.0 million.

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 reserve 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.

With the exception of Katonah III, Ltd., as of September 30, 2019 all of the Company's investments in CLO Fund securities were making distributions to the Company.

**Affiliate Investments:**

The following table details investments in affiliates at September 30, 2019 (unaudited):

| | Industry Classification | Fair Value at 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 at of September 30, 2019 | Interest Income | Dividend Income |
|---|---|---|---|---|---|---|---|---|---|---|
| Asset Manager Affiliates(3)(4)(6) | Asset Management Company | $ 3,470,000 | — | — | — | — | $ (3,470,000) | $ — | $ — | $ — |
| Tank Partners Holdings, LLC(3)(4)(5) | Energy: Oil & Gas | 1,000 | 6,228,000 | — | — | (5,064,000) | (1,165,000) | — | — | — |
| Tank Partners Holdings, LLC(3)(4)(5) | Energy: Oil & Gas | — | 622,167 | | — | (89,900) | — | 532,267 | — | — |
| BCP Great Lakes Holdings LP(5) | Joint Venture | 12,466,667 | 11,671,251 | — | — | 52,349 | — | 24,190,267 | — | 642,257 |
| KCAP Freedom 3, LLC (3)(5) | Joint Venture | 18,390,440 | — | — | — | 2,845,299 | | 21,235,739 | — | 2,900,000 |
| Total controlled affiliates | | 34,328,107 | 18,521,418 | — | — | (2,256,252) | (4,635,000) | 45,958,273 | — | 3,542,257 |
| | | | | | | | | | | |
| Catamaran CLO 2013-1, Ltd. (1)(2)(3)(7) | CLO Fund Securities | — | — | (76,674) | 7,506,434 | (1,161,226) | — | 6,268,534 | 689,644 | — |
| Catamaran CLO 2014-1, Ltd. (1)(2)(3)(7) | CLO Fund Securities | — | — | (123,923) | 9,112,278 | (685,400) | — | 8,302,955 | 657,347 | — |
| Catamaran CLO 2014-2, Ltd. (1)(2)(3)(7) | CLO Fund Securities | — | — | (183,896) | 2,591,820 | (1,186,688) | — | 1,221,236 | 157,803 | — |
| Catamaran CLO 2015-1, Ltd. (1)(2)(3)(7) | CLO Fund Securities | — | — | (113,157) | 3,157,769 | (187,734) | — | 2,856,878 | 247,882 | — |
| Catamaran CLO 2016-1, Ltd. (1)(2)(4)(7) | CLO Fund Securities | — | — | (180,331) | 7,502,959 | (467,845) | — | 6,854,783 | 476,627 | — |
| Catamaran CLO 2018-1, Ltd. (1)(2)(3)(7) | CLO Fund Securities | — | — | (427,923) | 8,950,000 | 424,819 | — | 8,946,896 | 675,164 | — |
| KCAP F3C Senior Funding Rated Notes(3)(7) | CLO Fund Securities | 4,473,840 | (4,466,205) | — | — | — | (7,635) | — | 289,373 | — |
| Navex Topco, Inc.(3)(4)(7) | Electronics | — | (3,667,625) | — | 6,646,229 | — | (4,854) | 2,973,750 | 311,355 | — |
| Zest Acquisition Corp.(3)(4)(7) | Healthcare, Education and Childcare | — | — | — | 3,231,683 | — | — | 3,231,683 | 175,409 | — |
| Total Non-controlled affiliates | | 4,473,840 | (8,133,830) | (1,105,904) | 48,699,172 | (3,264,074) | (12,489) | 40,656,715 | 3,680,604 | — |
| | | | | | | | | | | |
| Total Affiliated Investments | | $ 38,801,947 | $ 10,387,588 | $ (1,105,904) | $ 48,699,172 | $ (5,520,326) | $ (4,647,489) | $ 86,614,988 | $ 3,680,604 | $ 3,542,257 |

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.

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.

The following table details investments in affiliates at December 31, 2018:

| | Industry Classification | Fair Value at of December 31, 2017 | Purchases/ (Sales) of or Advances/ (Distributions) | Net Accretion | Transfers In/(Out) of Affiliates | Net change in unrealized Gain/(Loss) | Realized Gain/(Loss) | Fair Value at of December 31, 2018 | Interest Income | Dividend Income |
|---|---|---|---|---|---|---|---|---|---|---|
| Asset Manager Affiliates(4)(5)(7) | Asset Management Company | $ 38,849,000 | $ (34,800,000) | — | — | (579,000) | $ — | $ 3,470,000 | $ — | $ 1,246,510 |
| Trimaran Advisors, LLC Revolving Credit Facility(4)(5) | Related Party Loans | — | — | — | — | — | — | — | 1,170,825 | — |
| Trimaran Advisors, LLC Related Party Loan (4)(5) | Related Party Loans | 8,359,051 | (8,359,051) | — | — | — | — | — | 765,963 | |
| Trimaran Advisors, LLC Related Party Loan (4)(5) | Related Party Loans | 4,418,232 | (4,418,232) | — | — | — | — | — | 229,380 | |
| Katonah 2007-I CLO, Ltd. (1)(2)(3)(4) | CLO Fund Securities | 10,770,486 | (10,676,556) | 271,658 | — | 9,754,423 | (10,120,011) | — | 271,658 | — |
| Trimaran CLO VII, Ltd. (1)(2)(3)(4) | CLO Fund Securities | 10,000 | | (6,725) | — | 369,831 | (373,105) | — | (6,725) | — |
| Catamaran CLO 2012-1, Ltd. (1)(2)(3)(4) | CLO Fund Securities | 2,320,783 | (2,596,571) | 264,746 | — | 3,527,018 | (3,515,976) | — | 264,746 | — |
| Catamaran CLO 2013-1, Ltd. (1)(2)(4) | CLO Fund Securities | 6,923,699 | 147,497 | 1,213,807 | (7,016,734) | (1,268,269) | — | — | 1,213,807 | — |
| Catamaran CLO 2014-1, Ltd. (1)(2)(4) | CLO Fund Securities | 8,230,178 | 535,309 | 1,347,240 | (9,777,251) | (335,476) | — | — | 1,347,240 | — |
| Catamaran CLO 2014-2, Ltd. (1)(2)(4) | CLO Fund Securities | 4,500,962 | (985,241) | 656,919 | (2,158,200) | (2,014,440) | — | — | 656,919 | — |
| Catamaran CLO 2015-1, Ltd. (1)(2)(4) | CLO Fund Securities | 3,569,600 | (573,089) | 507,789 | (3,048,696) | (455,604) | — | — | 507,789 | — |
| Catamaran CLO 2016-1, Ltd. (1)(2)(4) | CLO Fund Securities | 8,530,685 | (1,282,923) | 913,272 | (7,067,073) | (1,093,961) | — | — | 913,272 | — |
| Catamaran CLO 2018-1, Ltd. (1)(2)(4) | CLO Fund Securities | — | 9,500,000 | 343,450 | (8,500,000) | (1,343,450) | — | — | 343,450 | — |
| KCAP F3C Senior Funding Rated Notes(2)(4) | CLO Fund Securities | 4,632,000 | — | 37,298 | — | (195,458) | — | 4,473,840 | 468,755 | — |
| BCP Great Lakes Holdings LP(7) | Limited Partnership | — | 12,466,667 | — | — | — | — | 12,466,667 | — | — |
| KCAP Freedom 3, LLC (4)(6) | Joint Venture | 21,516,000 | — | — | — | (3,125,560) | — | 18,390,440 | — | 3,100,000 |
| Tank Partners Holdings, LLC(4)(5) | Unit | — | — | — | 980,000 | (979,000) | — | 1,000 | — | — |
| Total Affiliated Investments | | $ 122,630,676 | $ (41,042,190) | $ 5,549,454 | $ (36,587,954) | $ 2,261,054 | $ (14,009,092) | $ 38,801,947 | $ 8,147,079 | $ 4,346,510 |

1 Non-U.S. company or principal place of business outside the U.S.
2 An affiliate CLO Fund managed by an Asset Manager Affiliate (as such term is defined in the notes to the consolidated financial statements).
3 Notice of redemption has been received for this security.
4 Fair value of this investment was determined using significant unobservable inputs.
5 Qualified asset for purposes of section 55(a) of the Investment Company Act of 1940.
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 (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.

7 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.

**Investment in Joint Ventures:**

For the three and nine months ended September 30, 2019 and 2018 , the Company recognized $1.3 million and $0.8 million, respectively, and $3.5 million and $2.2 million, respectively, in investment income from its investments in Joint Ventures. As of September 30, 2019 and December 31, 2018, the fair value of the Company’s investments in Joint Ventures was approximately $45.4 million and $30.9 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 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 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

| | As of September 30, 2019 | As of December 31, 2018 |
|---|---|---|
| Investment at fair value | $ 33,548,354 | $ 32,621,188 |
| Total Assets | $ 33,548,354 | $ 32,621,188 |
| Total Liabilities | $ 968,642 | $ 1,970,455 |
| Total Equity | 32,579,712 | 30,650,733 |
| Total Liabilities and Equity | $ 33,548,354 | $ 32,621,188 |

**KCAP Freedom 3 LLC**
Summarized Statement of Operations

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Investment income | $ 1,341,881 | $ 1,148,571 | $ 3,957,429 | $ 3,566,385 |
| Operating expenses | 35,191 | 56,512 | 54,183 | 110,273 |
| Net investment income | 1,306,690 | 1,092,059 | 3,903,246 | 3,456,112 |
| Unrealized appreciation on investments | (1,663,956) | 529,662 | 1,928,979 | (35,274) |
| Net income | $ (357,266) | $ 1,621,721 | $ 5,832,225 | $ 3,420,838 |

**KCAP Freedom 3 LLC**
Schedule of Investments
September 30, 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 14.9%, 12/29 maturity | 100.0% | $ 41,634,567 | $ 33,548,354 |
| **Total Investments** | | | **$ 41,634,567** | **$ 33,548,354** |

(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

**KCAP Freedom 3 LLC**
Schedule of Investments
December 31, 2018

| Portfolio Company | Investment | Percentage Ownership by Joint Venture | | Amortized Cost | | Fair Value |
|---|---|---|---|---|---|---|
| KCAP F3C Senior Funding, LLC (1)(2) | Subordinated Securities, effective interest 11.5%, 12/29 maturity | 100.0% | $ | 42,636,380 | $ | 32,621,188 |
| **Total Investments** | | | **$** | **42,636,380** | **$** | **32,621,188** |

(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.

**BCP Great Lakes Partnership LP**

BCP Great Lakes Partnership 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 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, 2019 and December 31, 2018 was $24.2 million and $12.5 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, 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, 2019 and December 31, 2018, the Company has a $25.9 million and $12.5 million, respectively unfunded commitment to the BCP Great Lakes Partnership.

**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, 2019 (unaudited) and December 31, 2018, respectively:

| | As of September 30, 2019 (unaudited) | | | | |
|---|---|---|---|---|---|
| | **Level I** | **Level II** | **Level III** | **NAV** | **Total** |
| Short Term investments | $ 9,999,183 | $ 13,181,680 | $ — | $ — | $ 23,180,863 |
| Debt securities | — | 51,700,923 | 123,923,422 | — | 175,624,345 |
| CLO Fund securities | — | — | 36,871,295 | — | 36,871,295 |
| Equity securities | — | 5,500,000 | 779,611 | — | 6,279,611 |
| Joint Ventures | — | — | 21,235,739 | 24,190,267 | 45,426,006 |
| Derivatives | — | — | 9,650 | — | 9,650 |
| Total | $ 9,999,183 | $ 70,382,602 | $ 182,819,717 | $ 24,190,267 | $ 287,391,771 |

| | As of December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Level I | Level II | Level III | NAV | Total |
| Short Term investments | $ 9,999,349 | $ 34,757,129 | $ — | $ — | $ 44,756,478 |
| Debt securities | — | 41,120,073 | 106,741,671 | — | 147,861,744 |
| CLO Fund securities | — | — | 44,325,000 | — | 44,325,000 |
| Equity securities | — | — | 2,038,020 | — | 2,038,020 |
| Asset Manager Affiliates | — | — | 3,470,000 | — | 3,470,000 |
| Joint Venture | — | — | 18,390,440 | 12,466,667 | 30,857,107 |
| Total | $ 9,999,349 | $ 75,877,202 | $ 174,965,131 | $ 12,466,667 | $ 273,308,349 |

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, 2019 and December 31, 2018 was $24.2 million and $12.5 million. 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.

Values derived for the Asset Manager Affiliates using comparable public/private companies utilize market-observable data and specific, non-public and non-observable financial measures (such as assets under management, historical and prospective earnings) for the Asset Manager Affiliates. The Company recognizes that comparable asset managers may not be fully comparable to the Asset Manager Affiliates and typically identifies a range of performance measures and/or adjustments within the comparable population with which to determine value. Since any such ranges and adjustments are entity specific they are not considered market-observable data and thus require a Level III grouping. Illiquid investments that have values derived through the use of discounted cash flow models and residual enterprise value models 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, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Securities | CLO Fund Securities | Equity Securities | Asset Manager Affiliate | Joint Ventures | 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] | (8,165,157) | — | — | — | — | — | (8,165,157) |
| Transfers into Level III[2] | 12,506,669 | — | — | — | — | — | 12,506,669 |
| Net accretion | 93,157 | 4,815,733 | — | — | — | — | 4,908,890 |
| Purchases | 45,192,842 | — | 6,273,915 | — | — | 30,609 | 51,497,366 |
| Sales/Paydowns/Return of Capital | (25,085,504) | (10,874,805) | (80,640) | | — | — | (36,040,949) |
| Total realized loss included in earnings | (10,099,326) | (595,571) | (1,642,282) | (3,470,000) | — | — | (15,807,179) |
| Change in unrealized gain (loss) included in earnings | 2,739,070 | (799,062) | (5,809,402) | — | 2,845,299 | (20,959) | (1,045,054) |
| Balance, September 30, 2019 | $ 123,923,422 | $ 36,871,295 | $ 779,611 | $ — | $ 21,235,739 | $ 9,650 | $ 182,819,717 |
| Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date | $ (9,801,476) | $ (799,062) | $ (5,809,402) | $ — | $ 2,845,299 | $ (20,959) | $ (13,585,600) |

1 Transfers out of Level III represent a transfer of $8.2 million relating to debt securities for which pricing inputs, other than their quoted prices in active markets were observable as of September 30, 2019

2 Transfers into Level III represent a transfer of $12.5 million relating to debt securities for which pricing inputs, other than their quoted prices in active markets were unobservable as of September 30, 2019.

| | Year Ended December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Debt Securities | CLO Fund Securities | Equity Securities | Asset Manager Affiliate | Joint Venture | Total |
| Balance, December 31, 2017 | $ 69,885,455 | $ 51,678,673 | $ 4,414,684 | $ 38,849,000 | $ 21,516,000 | $ 186,343,812 |
| Transfers out of Level III[1] | (230,732) | — | — | — | — | (230,732) |
| Transfers into Level III[2] | 16,474,663 | — | — | — | — | 16,474,663 |
| Net accretion | 125,614 | 5,878,260 | — | — | — | 6,003,874 |
| Purchases | 38,099,644 | 12,781,528 | — | — | — | 50,881,172 |
| Sales/Paydowns/Return of Capital | (11,116,360) | (19,033,322) | (1,093,244) | (34,800,000) | — | (66,042,926) |
| Total realized gain included in earnings | (51,674) | (16,484,872) | — | — | — | (16,536,546) |
| Total unrealized gain (loss) included in earnings | (6,444,939) | 9,504,733 | (1,283,420) | (579,000) | (3,125,560) | (1,928,186) |
| Balance, December 31, 2018 | $ 106,741,671 | $ 44,325,000 | $ 2,038,020 | $ 3,470,000 | $ 18,390,440 | $ 174,965,131 |
| Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date | $ (5,197,940) | $ 6,631,424 | $ (1,283,420) | $ (579,000) | $ (3,125,560) | $ (3,554,496) |

1 Transfers out of Level III represent a transfer of $230 thousand relating to debt securities for which pricing inputs, other than their quoted prices in active markets were observable as of December 31, 2018.

2 Transfers into Level III represent a transfer of $16.5 million relating to debt securities for which pricing inputs, other than their quoted prices in active markets were unobservable as of December 31, 2018.

As of September 30, 2019 and December 31, 2018, 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 $70.4 million and $75.9 million as of September 30, 2019 and December 31, 2018, respectively.

As of September 30, 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 Inpu (Weighted Avera |
|---|---|---|---|---|
| **Debt Securities** | $ 8,462,273 | Enterprise Value | Average EBITDA Multiple | 6.8x-8.0x (7.3x) |
| | 115,461,149 | Income Approach | Implied Discount Rate | 5.4% – 23.7% (10.3)% |
| **Equity Securities** | 774,611 | Enterprise Value | Average EBITDA Multiple / WACC | 3.2x – 10.0x (8.7x) 13. |
| | 5,000 | Options Value | Qualitative Inputs(1) | |
| **CLO Fund Securities** | 36,383,787 | Discounted Cash Flow | Discount Rate | 13.4%-13.9% (13.5%) |
| | | | Probability of Default | 1%-2% (1.5%) |
| | | | Loss Severity | 20.0%-36.5% (28.3%) |
| | | | Recovery Rate | 63.5%-80.0% (71.2%) |
| | | | Prepayment Rate | 15.0%-25.0% (15.0%) |
| | 487,508 | Liquidation Value | Qualitative Inputs(2) | |
| **Joint Ventures** | 21,235,739 | Enterprise Value | Underlying NAV of the CLO | |
| **Derivatives** | 9,650 | Market Approach | Transacted Value/Contractual Financing Rate | |
| **Total Level III Investments** | $ 182,819,717 | | | |

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, 2018, 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** | $ 8,661,114 | Enterprise Value | Average EBITDA | 5.0x – 8.0x (5.2x) |
| | | | Multiple / WACC | 15.8% |
| | 98,080,557 | Income Approach | Implied Discount Rate | 6.3% - 26.8% (11.8%) |
| **Equity Securities** | 1,979,020 | Enterprise Value | Average EBITDA Multiple | 4.5x – 11.0x (9.5x) |
| | 59,000 | Options Value | Qualitative Inputs(1) | |
| **CLO Fund Securities** | 35,455,720 | Discounted Cash Flow | Discount Rate | 13.5%-14.0% (13.9%) |
| | | | Probability of Default | 0.75%-2% (1.4%) |
| | | | Loss Severity | 20%-36 % (28.3%) |
| | | | Recovery Rate | 63.5%-80% (71.7%) |
| | | | Prepayment Rate | 10%-20% (15%) |
| | 369,280 | Liquidation Value | Qualitative Inputs(2) | |
| | 8,500,000 | Market Approach | Third Party Quote | 85.0% |
| **Asset Manager Affiliate** | 3,470,000 | Discounted Cash Flow | Discount Rate | 4.0% - 10.0% (7.77%) |
| **Joint Ventures** | 18,390,440 | Enterprise Value | Underlying NAV of the CLO | |
| **Total Level III Investments** | $ 174,965,131 | | | |

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 significant unobservable inputs used in the fair value measurement of the Asset Manager Affiliates is the discount rate used to present value prospective cash flows. Prospective revenues are generally based on a fixed percentage of the par value of CLO Fund assets under management and are recurring in nature for the term of the CLO Fund so long as the Asset Manager Affiliates manage the fund. As a result, the fees earned by the Asset Manager Affiliates are generally not subject to market value fluctuations in the underlying collateral. The discounted cash flow model 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. Significant increases or decreases in such discount rate would result in a significantly lower or higher fair value measurement, respectively.

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.

## 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, 2019 and December 31, 2018, the Asset Manager Affiliates had approximately $300 million and $300 million of par value of assets under management, respectively, and the Company's 100% equity interest in the Asset Manager Affiliates had a fair value of approximately $0 and $3.5 million, respectively.

Certain investments, and the future management fees of certain managed CLO Funds, had been pledged by the Asset Manager Affiliates to third-party lenders under borrowing arrangements undertaken to satisfy the risk retention requirements of the Dodd-Frank Act then applicable to asset managers. In addition, certain of the Asset Manager Affiliates had provided a make-whole guaranty to these lenders in the event that the pledged assets and management fees were insufficient to satisfy the repayment of these borrowings. These borrowing arrangements were all satisfied prior to the sale of the Asset Manager Affiliates.

No distributions were declared during the three and nine months ended September 30, 2019. For three and nine months ended September 30, 2018, the Asset Manager Affiliates declared cash distributions of $300,000 and $1.9 million to the Company. Any distributions from the Asset Manager Affiliates out of their estimated tax-basis earnings and profits are recorded as "Dividends from Asset Manager Affiliates" on the Company's statement of operations. The Company recognized $300,000 and $920,000 of Dividends from Asset Manager Affiliates, as reflected in the Company's statement of operations in the for the three and nine months ended September 30, 2018, respectively. The difference between cash distributions received and the tax-basis earnings and profits of the distributing affiliate are recorded as an adjustment to the cost basis in the Asset Manager Affiliate (i.e., tax-basis return of capital). For the nine months ended September 30, 2018 the difference of $1.0 million, between cash distributions received and the tax-basis earnings and profits of the distributing affiliate, were recorded as an adjustment to the cost basis in the Asset Manager Affiliate (i.e. tax-basis return of capital). Distributions receivable, if any, are reflected in the "due from affiliates" account on the consolidated balance sheets.

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).

The Asset Manager Affiliates' fair value is determined quarterly. The valuation is primarily determined utilizing a discounted cash flow model. See Note 2 - "Significant Accounting Policies" and Note 4 - "Investments" for further information relating to the Company's valuation methodology.

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 Balance Sheet

| | As of September 30, 2019 (unaudited) | As of December 31, 2018 |
|---|---|---|
| Cash | $ 725,129 | $ 1,335,004 |
| Other Assets | 11,305 | 129,880 |
| Total Assets | $ 736,434 | $ 1,464,884 |
| Other Liabilities | $ 427,788 | $ 995,270 |
| Total Liabilities | 427,788 | 995,270 |
| Total Equity | 308,646 | 469,614 |
| Total Liabilities and Equity | $ 736,434 | $ 1,464,884 |

**Asset Manager Affiliates**
Summarized Statements of Operations Information (unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 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 | 120,875 | 1,941,795 | 161,355 | 7,287,001 |
| Interest Expense | — | 935,654 | — | 3,648,760 |
| Total Expenses | 120,875 | 2,877,449 | 161,355 | 10,935,761 |
| Income before unrealized gains on investments and income taxes | (120,875) | 480,751 | (161,355) | 641,557 |
| Unrealized gains on investments | — | 207,427 | — | 410,888 |
| (Loss) Income before income taxes | (120,875) | 688,178 | (161,355) | 1,052,445 |
| Income Tax (Benefit) | — | (161,584) | — | (490,150) |
| Net (Loss) Income | $ (120,875) | $ 849,762 | $ (161,355) | $ 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.

Goodwill amortization for tax purposes was created upon the purchase of 100% of the equity interests in Katonah Debt Advisors prior to the Company's IPO in exchange for shares of the Company's stock valued at $33 million. Although this transaction was a stock transaction rather than an asset purchase and thus no goodwill was recognized for GAAP purposes, such exchange was considered an asset purchase under Section 351(a) of the Code. At the time of the transfer, Katonah Debt Advisors had equity of approximately $1 million resulting in tax goodwill of approximately $32 million which was being amortized for tax purposes on a straight-line basis over 15 years.

Additional goodwill amortization for tax purposes was created upon the purchase of 100% of the equity interests in Trimaran Advisors by one of the Company's affiliates, in exchange for shares of the Company's stock valued at $25.5 million and cash of $13.0 million. The transaction was considered an asset purchase under Section 351(a) of the Code and resulted in tax goodwill of approximately $22.8 million, and tax basis intangible assets of $15.7 million, both of which were being amortized for tax purposes on a straight-line basis over 15 years.

## 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.

The Company incurred management fees of $1.0 million and $2.1 million for the three and nine months ended September 30, 2019, respectively. No incentive fees were earned during 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 $0.4 million and $0.8 million 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.

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.

***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. At September 30, 2019 and December 31, 2018, there were no loans outstanding under the Trimaran Credit Facility. For the three and nine months ended September 30, 2018 the Company recognized interest income of approximately $512,000 and $1.2 million, related to the Trimaran Credit Facility.

## 7. BORROWINGS

The Company's debt obligations consist of the following:

| | As of September 30, 2019 (unaudited) | As of December 31, 2018 |
|---|---|---|
| 6.125% Notes Due 2022 (net of offering costs of: 2019-$1,793,546; 2018 - $2,207,341) | $ 75,613,654 | $ 75,199,858 |
| Great Lakes KCAP Funding I, LLC Revolving Credit Facility (net of offering costs of: 2019-$1,154,688; 2018 - $1,155,754) | 46,865,797 | 25,200,331 |
| | $ 122,479,451 | $ 100,400,189 |

The weighted average stated interest rate and weighted average maturity on all our debt outstanding as of September 30, 2019 were 5.8% and 2.8 years, respectively, and as of December 31, 2018 were 6.0% and 3.6 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. 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 6.125% Notes Due 2022, the Company is limited in its ability to make distributions in certain circumstances. 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, 2019, the Company was in compliance with all of its debt covenants.

For the three months ended September 30, 2019 and 2018, 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, 2019 and 2018 interest expense related to the 6.125% Notes Due 2022 was approximately $3.6 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 $1.8 million and $2.2 million remains to be amortized as of September 30, 2019 and December 31, 2018, respectively, and is included on the consolidated balance sheets as a reduction in the related debt liability.

*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 $1.8 million and $2.2 million at September 30, 2019 and December 31, 2018. The fair value of the Company's outstanding 6.125% Notes Due 2022 was approximately $77.6 million and $76.6 million at September 30, 2019 and December 31, 2018. The fair value was determined based on the closing price on September 30, 2019 for the 6.125% Notes Due 2022. The 6.125% Notes Due 2022 are categorized as Level I under the ASC 820 Fair Value.

*Great Lakes KCAP Funding I, LLC*

On March 1, 2018, Great Lakes KCAP Funding I, LLC ("Funding"), a wholly-owned subsidiary of the Company, entered into a senior secured revolving credit facility (the "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.

On April 1, 2019, the maximum commitment amount of the Revolving Credit Facility was increased to $67.5 million, subject to availability under the borrowing base. Borrowings under the Revolving Credit Facility bear 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 Revolving Credit Facility is drawn, the fee will be 0.50% per annum.

The Company intends to use the proceeds from borrowings under the Revolving Credit Facility for general corporate purposes, including to acquire certain qualifying loans, and such other uses as permitted under the Loan and Security Agreement (the "Revolving Credit Agreement").

The maturity date is the earlier of: (a) March 1, 2022 and (b) the date upon which all loans shall become due and payable in full, whether by acceleration or otherwise, as a result of a default by the Company, as defined in the Revolving Credit Facility.

Borrowings under the Revolving Credit Facility are repayable by the Company at any time.

The Revolving Credit Facility is secured by all of the assets held by Funding, and the Company has 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. At September 30, 2019 and December 31, 2018, Funding was in compliance with all of its debt covenants.

As of September 30, 2019 and December 31, 2018, $48.0 million and $26.4 million principal amount of borrowings was outstanding under the Revolving Credit Facility. As of September 30, 2019 and December 31, 2018, assets with a fair value of $118.0 million and $76.2 million were pledged to the Revolving Credit Facility.

Interest on borrowings under the Revolving Credit Facility is paid monthly. Borrowings under the Revolving Credit Facility are subject to redemption in whole or in part at any time or from time to time, at the option of the Funding.

For the three months ended September 30, 2019 and 2018, interest and fees expense related to the Revolving Credit Facility was approximately $784,000 and $317,000. For the nine months ended September 30, 2019 and 2018 interest and fees expense related to the Revolving Credit Facility was approximately $1.7 million and $667,000, respectively.

The Company incurred approximately $1.8 million of debt offering costs in connection with the Revolving Credit Facility, which are being amortized over the expected term of the Revolving Credit Facility on an effective yield method, of which approximately $1.2 million remains to be amortized as of September 30, 2019, and is included on the consolidated balance sheets as a reduction in the related debt liability.

*Fair Value of the Revolving Credit Facility.* Borrowings under the Revolving Credit Facility are carried at cost, net of unamortized debt offering costs of $1.2 million at September 30, 2019. The fair value of the Revolving Credit Facility borrowings was approximately $48.0 million and $26.4 million at September 30, 2019 and December 31, 2018. The fair value was determined based on an analysis of the value of the pledged collateral and the amount of over-collateralization supporting the repayment of these borrowings. The Revolving Credit Facility borrowings are categorized as Level III under the ASC 820 Fair Value.

*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. As of December 31, 2018, there were no 7.375% Notes Due 2019 outstanding. 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.

For the three and nine months ended September 30, 2018, interest expense related to the 7.375% Notes Due 2019 was approximately $129,000 and $694,000.

During the second quarter of 2017, approximately $6.5 million par value of the 7.375% Notes Due 2019 was redeemed by the Company, resulting in a realized loss on extinguishment of approximately $107,000. The Company subsequently surrendered these notes to the Trustee for cancellation.

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 2019). 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 following reconciles net increase in net assets resulting from operations to taxable income for the nine months ended September 30, 2019 and 2018:

| | For the Nine Months Ended September 30, 2019 (unaudited) | For the Nine Months Ended September 30, 2018 (unaudited) |
|---|---|---|
| Net (decrease) increase in net assets resulting from operations | $ (16,016,674) | $ 2,646,472 |
| Net change in unrealized depreciation (appreciation) from investments | 147,196 | 4,991,311 |
| Net realized losses | 16,796,465 | 306,410 |
| Book/tax differences on CLO equity investments | 859,602 | (36,416) |
| Book/tax differences on lease impairment | 1,431,030 | — |
| Other book/tax differences | 1,847,644 | 924,707 |
| Taxable (loss) income before deductions for distributions | $ 5,065,263 | $ 8,832,484 |
| Taxable (loss) income before deductions for distributions per weighted average basic shares for the period | $ 0.14 | $ 0.24 |
| Taxable (loss) income before deductions for distributions per weighted average diluted shares for the period | $ 0.14 | $ 0.24 |

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 nine months ended September 30, 2018, the Asset Manager Affiliates declared a cash distribution of $1.9 million to the Company. The Company recognized $920,000 of dividends from the Asset Manager Affiliates, as reflected in the Company's statement of operations for the nine months ended September 30, 2018. For the nine months ended September 30, 2018 the difference of $1.0 million between cash distributions received and the tax-basis earnings and profits of the distributing affiliate, are recorded as an adjustment to the cost basis in the Asset Manager Affiliate (i.e. tax-basis return of capital). During the nine months ended September 30, 2019 the Company did not receive a cash distribution from the Affiliated Manager Affiliates nor did they recognize any dividends.

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, 2019, the Company had a net capital loss carryforward of $101.4 million to offset net capital gains. This net capital loss carryforward is not subject to expiration.

On August 6, 2019 the Company's Board declared a distribution to shareholders of $0.06 per share for a total of $2.2 million. The record date was August 12, 2019 and the distribution was paid on August 29, 2019.

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, 2019 and December 31, 2018, the Company had $28.3 million and $12.9 million outstanding commitments, respectively.

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, 2019 and December 31, 2018, the Company had a $25.9 million and $12.5 million, respectively unfunded commitment to the BCP Great Lakes Partnership, subject to the limitations noted above.

In the fourth quarter of 2018, the Company undertook the commitments under a lease obligation for its office space. Such obligation was previously with Katonah Debt Advisors. 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 $491 thousand and $323 thousand for the nine months ended September 30, 2019 and 2018, respectively.

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 expires on 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 Company intends to sublease its legacy office space, and 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.

Excluding the impairment charge, the total operating lease costs were approximately $138 thousand and $491 thousand for the three and nine months ended September 30, 2019, respectively.

The following table summarizes the future minimum lease payments as of September 30, 2019:

| | | Payments Due by Period | | | | | |
|---|---|---|---|---|---|---|---|
| **Operating lease** | **Total Cash Flows** | **2019** | **2020** | **2021** | **2022** | **2023** | **More than 5 years** |
| Contractual cash flows | $ 3,735,368 | $ 200,109 | $ 800,436 | $ 800,436 | $ 800,436 | $ 800,436 | $ 333,515 |
| Discount effect on cash flows | 470,287 | | | | | | |
| Operating lease liability | $ 3,265,081 | | | | | | |

## 10. STOCKHOLDERS' EQUITY

The following table details the components of Stockholders' Equity for the nine months ended September 30, 2019 and 2018:

| | 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 | — | — | (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 | $ 373,317 | $ 307,099,763 | $ (163,787,052) | $ 143,686,028 |
| Net investment income | — | — | 879,740 | 879,740 |
| Net realized (losses) from investment transactions | — | — | (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 | $ 373,561 | $ 307,172,819 | $ (168,368,789) | $ 139,177,591 |
| Net investment income | — | — | 2,242,433 | 2,242,433 |
| Net realized (losses) from investment transactions | — | — | (1,176,073) | (1,176,073) |
| Net change in unrealized appreciation on investments | — | — | (5,317,142) | (5,317,142) |
| Distributions to Stockholders | — | — | (2,241,522) | (2,241,522) |
| Reinvested Dividends | 158 | 37,567 | — | 37,725 |
| Stock-based compensation | — | — | — | — |
| Balance, September 30, 2019 | $ 373,719 | $ 307,210,386 | $ (174,861,093) | $ 132,723,012 |

| | Nine Months Ended September 30, 2018 | | | |
|---|---|---|---|---|
| | Common Stock | Capital in Excess of Par Value | Total Distributable (loss) earnings | Total Stockholders' Equity |
| Balance, January 1, 2018 | $ 373,392 | $ 329,789,716 | $ (148,358,532) | $ 181,804,576 |
| Net investment income (loss) | — | — | 2,460,742 | 2,460,742 |
| Net realized (losses) from investment transactions | — | — | 3,101 | 3,101 |
| Realized loss from extinguishment of debt | — | — | (169,074) | (169,074) |
| Net change in unrealized (depreciation) on investments | — | — | 314,624 | 314,624 |
| Distributions to Stockholders | — | — | (3,716,297) | (3,716,297) |
| Reinvested Dividends | 153 | 51,407 | — | 51,560 |
| Stock-based compensation | — | 252,855 | — | 252,855 |
| Balance, March 31, 2018 | $ 373,545 | $ 330,093,978 | $ (149,465,436) | $ 181,002,087 |
| Net investment income (loss) | — | — | 2,528,919 | 2,528,919 |
| Net realized (losses) from investment transactions | — | — | (3,671) | (3,671) |
| Realized loss from extinguishment of debt | — | — | — | — |
| Net change in unrealized (depreciation) on investments | — | — | (3,837,020) | (3,837,020) |
| Distributions to Stockholders | — | — | (3,717,821) | (3,717,821) |
| Reinvested Dividends | 158 | 50,381 | — | 50,539 |
| Common stock withheld for payroll taxes | — | (85,807) | — | (85,807) |
| Stock-based compensation | (284) | 208,322 | — | 208,038 |
| Balance, June 30, 2018 | $ 373,419 | $ 330,266,874 | $ (154,495,029) | $ 176,145,264 |
| Net investment income (loss) | — | — | 2,954,529 | 2,954,529 |
| Net realized (losses) from investment transactions | — | — | (136,766) | (136,766) |
| Realized loss from extinguishment of debt | — | — | — | — |
| Net change in unrealized (depreciation) on investments | — | — | (1,468,914) | (1,468,914) |
| Distributions to Stockholders | — | — | (3,723,206) | (3,723,206) |
| Reinvested Dividends | 159 | 52,446 | — | 52,605 |
| Common stock withheld for payroll taxes | — | (936) | — | (936) |
| Stock-based compensation | (86) | 86,016 | — | 85,930 |
| Balance, September 30, 2018 | $ 373,492 | $ 330,404,400 | $ (156,869,386) | $ 173,908,506 |

During the nine months ended September 30, 2019 and 2018, the Company issued 55,637 and 46,942 shares, respectively, of common stock under its dividend reinvestment plan. For the nine months ended September 30, 2019, there were no grants of restricted stock, 10,571 shares were forfeited, and 113,382 shares vested. The total number of shares of the Company's common stock outstanding as of September 30, 2019 and December 31, 2018 was 37,371,912 and 37,326,846, 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, 2018 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, 2018 | 50,000 | $ 7.72 | 2.4 | $ — |
| Granted | — | — | | |
| Exercised | — | — | | |
| Forfeited | | | | |
| Expired unexercised | (5,000) | 11.97 | | |
| Cancelled | (15,000) | 11.97 | | |
| Options outstanding at December 31, 2018 | 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 and nine months ended September 30, 2019 and 2018, the Company did not recognize any non-cash compensation expense related to stock options. At September 30, 2019, 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 4, 2017, 6,000 shares of restricted stock were awarded to the Company's Board.

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, 2018 through September 30, 2019 is as follows:

| | Non-vested Restricted Shares |
|---|---|
| Non-vested shares outstanding at January 1, 2018 | 297,199 |
| Granted | 6,000 |
| Vested | (122,878) |
| Forfeited | (56,368) |
| Non-vested shares outstanding at December 31, 2018 | 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; all of which was expensed by the Company. For the three months ended September 30, 2018, non-cash compensation expense related to restricted stock was approximately $87,000; of this amount approximately $32,000 was expensed by the Company, and approximately $55,000 was a reimbursable expense allocated to the Asset Manager Affiliates. For the nine months ended September 30, 2018, non-cash compensation expense related to restricted stock was approximately $574,000; of this amount approximately $217,000 was expensed by the Company, and approximately $357,000 was a reimbursable expense allocated to the Asset Manager Affiliates.

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. Approximately $11,000 and $31,000 was expensed during the three and nine months ended September 30, 2018, respectively, related to the 401K Plan. This Plan was terminated effective March 31, 2019.

The Company has 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. Approximately $21,000 and $93,000 was expensed during the three and nine months ended September 30, 2018, related to the Profit-Sharing Plan. This Plan was terminated effective March 31, 2019, and no expense was recognized during the nine months ended September 30, 2019.

## 13. SUBSEQUENT EVENTS

On November 5, 2019, the Company and OHA Investment Corporation ("OHAI") filed a combined prospectus and proxy statement related to the Company's proposed acquisition of OHAI pursuant to a definitive agreement entered into on August 1, 2019. The special meeting of the stockholders of OHAI is expected to be held on December 12, 2019.

On November 1, 2019, the Company executed a surrender agreement with respect to the lease for office space formally occupied by the Company. The surrender agreement required the Company to make a payment of $1.6 million to the landlord, which was approximately the amount of the Company’s lease liability as of September 30, 2019, net of the lease right-of-use asset. The termination payment was made on November 1, 2019.

The Company has evaluated events and transactions occurring subsequent to September 30, 2019 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.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Portman Ridge Finance Corporation's condensed and consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

### GENERAL

Since April 1, 2019, we have been 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").

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 its debt investments.

On November 8, 2018, we entered into an agreement with LibreMax Intermediate Holdings, LP ("LibreMax") under which our wholly-owned subsidiary Commodore Holdings, LLC ("Commodore") agreed to sell Katonah Debt Advisors, L.L.C. ("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") to LibreMax for a cash purchase price of approximately $37.9 million (the "LibreMax Transaction"). In connection with the closing of the LibreMax Transaction on December 31, 2018, Commodore sold the Disposed Manager Affiliates, which manage collateralized loan obligation funds ("CLO Funds"), to LibreMax for a cash purchase price of approximately $37.9 million.

As of September 30, 2019, our remaining asset management subsidiaries (the "Asset Manager Affiliates") were comprised of Commodore, Katonah Management Holdings, LLC, Katonah X Management LLC ("Katonah X Management"), Katonah 2007-1 Management, LLC ("Katonah 2007-I Management") and KCAP Management, LLC. Commodore, Katonah X Management and Katonah 2007-1 Management have no operations and are expected to be liquidated in the normal course.

On December 14, 2018, we 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"), pursuant to which our management function would be externalized (the "Externalization") and Sierra Crest Investment Management LLC, an affiliate of BC Partners (the "Adviser") would be appointed as our investment adviser, subject to our stockholders' approval of the proposed investment advisory agreement between us and the Adviser (the "Advisory Agreement"). At a special meeting of our stockholders (the "Special Meeting") held on February 19, 2019, our stockholders approved the Advisory Agreement. Upon closing of the Externalization (the "Closing") on April 1, 2019, the Company commenced operations as an externally managed BDC managed by the Adviser.

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 earnings before interest, taxes, depreciation and amortization ("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 investment 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. The CLO Funds typically invest in broadly syndicated loans, high-yield bonds and other credit instruments. Our investments in CLO Fund Securities are anticipated to provide us with recurring cash distributions.

Subject to market conditions, we intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. As a BDC, we are limited in the amount of leverage we can incur under the 1940 Act. Effective March 29, 2019, 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. We will continue to be prohibited by the indentures governing our 6.125% Notes due 2022 (the "6.125% Notes due 2022") from making distributions on our common stock if our asset coverage, as defined in the 1940 Act, falls below 200%. See Note 7 - "Borrowings" to our consolidated financial statements.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company ("RIC") under the Internal Revenue 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. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any income that we timely distribute to our stockholders.

**The Externalization Agreement**

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 our common stock 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, 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."

On April 1, 2019, in connection with the Closing, all of our then-current directors resigned from their positions on our Board of Directors (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 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 cyclicality 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.

**Advisory Agreement**

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

- managing our assets in accordance with our investment objective, policies and restrictions;
- determining the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifying, evaluating and negotiating the structure of our investments;
- monitoring our investments;
- determining the securities and other assets we will purchase, retain or sell;
- assisting the Board with its valuation of our assets;
- directing investment professionals of the Adviser to provide managerial assistance to our portfolio companies;
- performing due diligence on prospective portfolio companies;
- exercising voting rights in respect of portfolio securities and other investments for us;
- serving on, and exercising observer rights for, boards of directors and similar committees of our portfolio companies; and
- providing us 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 our 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 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 our 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 our 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, we pay 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 our 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 our 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 our 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 our 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 us 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 we 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. See “Item 1A. Risk Factors— Risks Related to the Adviser and its Affiliates.” 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 we may pay an incentive fee in a calendar quarter in which we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the quarterly hurdle rate, we will pay the applicable incentive fee even if we have 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 our 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 us paying an incentive fee for the subsequent quarter. Our net investment income used to calculate this component of the incentive fee is also included in the amount of our 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 following is a graphical representation of the calculation of the income-related portion of the incentive fee:

**Quarterly Subordinated Incentive Fee on**

**Pre-Incentive Fee Net Investment Income**

**(expressed as a percentage of the value of net assets)**

| 0% | 1.75% | 2.121 % |
|---|---|---|
| ← 0% → | ← 100% → | ← 17.5% → |

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. We 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 we 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 us 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 us under the Advisory Agreement. In addition, as part of the Advisory Agreement, we have 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, our then-current Board held an in-person meeting to consider and approve the Advisory Agreement and related matters. The Board of Directors 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 us by the Adviser; (b) comparative data with respect to advisory fees or similar expenses paid by other BDCs with similar investment objectives; (c) our 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 us 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 our 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.

**Administration Agreement**

Under the terms of the Administration Agreement between the Company and 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. We 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 we will reimburse the Administrator for any services performed for us 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 our allocable portion of the compensation paid to our chief compliance officer and chief financial officer and their respective staff who provide services to us. 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.

We 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.

**OHAI TRANSACTION**

On August 1, 2019, we and OHA Investment Corporation ("OHAI") announced entry into a definitive agreement under which OHAI will merge with and into the Company (the "Merger"). The combined company will be externally managed by the Adviser.

Following the transaction, current OHAI stockholders are expected to own approximately 16% of the combined company and OHAI's credit facility will be paid off in full at the closing of the transaction.

Pursuant to the merger agreement, if at any time within one year after the closing date of the transaction our shares are 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.

Approval by our stockholders is not required for the Merger, and Oak Hill Advisors, L.P., the external advisor to OHAI, intends to vote its OHAI shares in favor of the transaction.

Under the terms of the proposed transaction, OHAI's stockholders will receive value per share (based on the net asset value per share of our stock and the aggregate value of cash consideration) of approximately 108% of OHAI's net asset value per share at the time of the closing of the transaction from us and the Adviser. As of March 31, 2019, OHAI's net asset value was $37.1 million, or $1.84 per share. In connection with the transaction, OHAI stockholders will receive a combination of (i) a minimum of $8 million in cash (approximately $0.40 per share) from us (as may be adjusted as described below); (ii) shares of our common stock valued at 100% of the our net asset value per share at the time of closing of the transaction in an aggregate number equal to OHAI's net asset value at closing minus the $8 million cash merger consideration (as may be adjusted as described below); and (iii) an additional cash payment from the Adviser of $3 million in the aggregate, or approximately $0.15 per share.

If the aggregate number of shares of our common stock to be issued in connection with the merger would exceed 19.9% of the issued and outstanding shares of our common stock immediately prior to the transaction closing, then the cash consideration payable by us will be increased to the minimum extent necessary such that the aggregate number of shares of our common stock to be issued in connection with the merger does not exceed such threshold. The exact exchange ratio for the stock component of the merger will be determined by the net asset value of OHAI and us as of the closing, calculated as of 5:00 p.m. New York City time on the day prior to the closing of the transaction. In addition to approval by OHAI's stockholders, the closing of the merger is subject to customary conditions.

On November 5, 2019, we and OHAI filed a combined prospectus and proxy statement setting the date for the OHAI stockholder meeting for December 12, 2019. We currently expect the transaction to be completed in the fourth calendar quarter of 2019.

**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 U.S. treasury bills and money market investments) for the nine months ended September 30, 2019 (unaudited) and for the year ended December 31, 2018 was as follows:

| | Debt Securities | CLO Fund Securities | Equity Securities | Asset Manager Affiliates | Joint Ventures | Derivatives | Total Portfolio |
|---|---|---|---|---|---|---|---|
| Fair Value at December 31, 2017 | | | | | | | |
| 2018 Activity: | $ 118,197,479 | $ 51,678,673 | $ 4,414,684 | $ 38,849,000 | $ 21,516,000 | $ — | $ 234,655,836 |
| Purchases / originations / draws | 92,911,178 | 12,781,528 | — | — | 12,466,667 | — | 118,159,373 |
| Pay-downs / pay-offs / sales | (57,125,611) | (19,033,322) | (1,093,244) | (34,800,000) | — | — | (112,052,177) |
| Net accretion of interest | 1,289,512 | 5,878,260 | — | — | — | — | 7,167,772 |
| Net realized losses | 9,933 | (16,484,872) | — | — | — | — | (16,474,939) |
| Increase (decrease) in fair value | (7,420,747) | 9,504,733 | (1,283,420) | (579,000) | (3,125,560) | — | (2,903,994) |
| Fair Value at December 31, 2018 | | | | | | | |
| 2019 Activity: | 147,861,744 | 44,325,000 | 2,038,020 | 3,470,000 | 30,857,107 | — | 228,551,871 |
| Purchases / originations / draws | 102,582,196 | — | 11,773,915 | — | 14,141,340 | 30,609 | 128,528,061 |
| Pay-downs / pay-offs / sales | (67,500,973) | (10,874,805) | (80,640) | — | (2,470,090) | — | (80,926,508) |
| Net accretion of interest | 185,412 | 4,815,733 | — | — | — | — | 5,001,145 |
| Net realized gains (losses) | (11,088,612) | (595,571) | (1,642,282) | (3,470,000) | — | — | (16,796,465) |
| Increase (decrease) in fair value | 3,584,578 | (799,062) | (5,809,402) | — | 2,897,649 | (20,959) | (147,196) |
| Fair Value at September 30, 2019 | $ 175,624,345 | $ 36,871,295 | $ 6,279,611 | $ — | $ 45,426,006 | $ 9,650 | $ 264,210,907 |

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, 2019 and December 31, 2018:

| | September 30, 2019 (unaudited) | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| **Security Type** | **Cost/Amortized Cost** | **Fair Value** | **%[1]** | **Cost/Amortized Cost** | **Fair Value** | **%[1]** |
| Short-term investments[2] | $ 23,180,863 | $ 23,180,863 | 8 | $ 44,756,478 | $ 44,756,478 | 17 |
| Senior Secured Loan | 106,682,014 | 104,599,092 | 36 | 86,040,921 | 77,616,209 | 28 |
| Junior Secured Loan | 79,140,346 | 70,492,986 | 25 | 76,223,561 | 70,245,535 | 26 |
| Senior Unsecured Bond | 620,145 | 532,267 | 0 | — | — | — |
| CLO Fund Securities | 48,825,983 | 36,871,295 | 13 | 55,480,626 | 44,325,000 | 16 |
| Equity Securities | 19,528,755 | 6,279,611 | 2 | 9,477,763 | 2,038,020 | 1 |
| Asset Manager Affiliates[3] | 17,791,230 | — | — | 17,791,230 | 3,470,000 | 1 |
| Joint Ventures | 49,052,776 | 45,426,006 | 16 | 37,381,525 | 30,857,107 | 11 |
| Derivatives | 30,609 | 9,650 | 0 | — | — | — |
| Total | $ 344,852,721 | $ 287,391,771 | 100% | $ 327,152,104 | $ 273,308,349 | 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, 2019 and December 31, 2018, were as follows:

| | September 30, 2019 (unaudited) | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| **Industry Classification** | **Cost/Amortized Cost** | **Fair Value** | **%[1]** | **Cost/Amortized Cost** | **Fair Value** | **%** |
| Aerospace and Defense | $ 9,657,656 | $ 9,696,240 | 3 | $ 5,434,927 | $ 4,049,940 | 1 |
| Asset Management Company [2] | 17,791,230 | — | — | 17,791,230 | 3,470,000 | 1 |
| Automotive | 4,903,922 | 4,887,750 | 2 | — | — | — |
| Banking, Finance, Insurance & Real Estate | 6,409,973 | 6,312,997 | 2 | 8,831,841 | 8,733,933 | 3 |
| Beverage, Food and Tobacco | 7,927,106 | 7,708,868 | 3 | 5,963,334 | 5,796,506 | 2 |
| Capital Equipment | 10,868,848 | 9,621,366 | 3 | 10,888,432 | 9,831,391 | 4 |
| Chemicals, Plastics and Rubber | — | — | — | 4,862,063 | 4,801,645 | 2 |
| CLO Fund Securities | 48,825,983 | 36,871,295 | 13 | 55,480,626 | 44,325,000 | 16 |
| Construction & Building | 1,528,417 | 1,491,999 | 1 | 1,400,223 | 1,394,163 | 1 |
| Consumer goods: Durable | 1,251,118 | 4,474 | 0 | 1,140,500 | 364,240 | 0 |
| Containers, Packaging and Glass | 2,839,628 | 2,623,104 | 1 | 1,434,568 | 1,440,525 | 1 |
| Electronics | 2,972,114 | 2,973,750 | 1 | 3,007,500 | 3,007,500 | 1 |
| Energy: Oil & Gas | 9,527,648 | 1,620,635 | 1 | 16,827,204 | 8,946,568 | 3 |
| Environmental Industries | 4,011,769 | 3,996,789 | 1 | 8,371,180 | 6,939,794 | 3 |
| Forest Products & Paper | 1,569,078 | 1,525,481 | 1 | 1,564,583 | 1,553,920 | 1 |
| Healthcare, Education and Childcare | 9,366,290 | 9,119,290 | 3 | — | — | — |
| Healthcare & Pharmaceuticals | 41,732,075 | 32,182,240 | 11 | 38,638,822 | 32,287,288 | 12 |
| High Tech Industries | 24,229,777 | 22,864,112 | 8 | 23,971,435 | 23,662,459 | 9 |
| Hotel, Gaming & Leisure | — | — | — | 400,000 | 1,000 | 0 |
| Joint Ventures | 49,052,776 | 45,426,006 | 16 | 37,381,525 | 30,857,107 | 11 |
| Media: Advertising, Printing & Publishing | 359,765 | 98,827 | 0 | 6,113,852 | 5,590,863 | 2 |
| Media: Broadcasting & Subscription | 4,858,333 | 4,892,093 | 2 | — | — | — |
| Services: Business | 29,630,110 | 28,244,892 | 9 | 10,398,710 | 9,213,416 | 3 |
| Services: Consumer | 4,580,275 | 4,594,427 | 2 | — | — | — |
| Telecommunications | 6,892,524 | 6,694,100 | 2 | 8,351,775 | 8,343,919 | 3 |
| Textiles and Leather | 12,383,112 | 12,257,840 | 4 | 10,140,662 | 9,940,294 | 4 |
| Money Market Accounts | 13,181,680 | 13,181,680 | 5 | 34,757,129 | 34,757,129 | 13 |
| Transportation: Cargo | 8,502,331 | 8,502,333 | 3 | 4,000,634 | 4,000,400 | 1 |
| U.S. Government Obligations | 9,999,183 | 9,999,183 | 3 | 9,999,349 | 9,999,349 | 4 |
| Total | $ 344,852,721 | $ 287,391,771 | 100% | $ 327,152,104 | $ 273,308,349 | 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, 2019 and December 31, 2018, the weighted average contractual interest rate on our loans and debt securities was approximately 9.4% and 10.0%, respectively. At September 30, 2019 and December 31, 2018, the weighted average contractual interest rate on our loans and debt securities, excluding non-accrual and partial non-accrual investments, was approximately 9.0% and 9.1%, respectively.

The investment portfolio (excluding the Company's investment in Asset Manager Affiliates, CLO Fund Securities, and Joint Ventures) at September 30, 2019 was spread across 21 different industries and 51 different entities with an average balance per entity of approximately $3.3 million. As of September 30, 2019 six of our investments were on non-accrual status. As of December 31, 2018 five 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, and distressed debt or equity securities of large cap public companies. At September 30, 2019 and December 31, 2018, the total amount of non-qualifying assets was approximately 28.3% and 28.0%, respectively. The majority of non-qualifying assets were foreign investments which were approximately 12.8% and 16.5%, respectively, of our total assets (including our investments in CLO Funds, which are typically domiciled outside the U.S. and represented approximately 12.6% and 15.5% 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, 2019, 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. As of December 31, 2018, our Asset Manager Affiliates had approximately $300 million of par value of assets under management on which they earned management fees, and were valued at approximately $3.5 million.

**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, 2019 and December 31, 2018, we had approximately $36.9 million and $44.3 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. 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, 2018.

Our CLO Fund Securities as of September 30, 2019 and December 31, 2018 are as follows:

| | | | September 30, 2019(3) | | December 31, 2018[2] | |
|---|---|---|---|---|---|---|
| **CLO Fund Securities** | **Investment** | **%[1]** | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** |
| Katonah III, Ltd. | Income Notes | 23.1 | $ 1,287,155 | $ 487,508 | $ 1,287,155 | $ 369,280 |
| Catamaran CLO 2013- 1 Ltd. | Subordinated Notes | 23.3 | 6,294,986 | 6,268,534 | 6,378,611 | 7,016,733 |
| Catamaran CLO 2014-1 Ltd. | Subordinated Notes | 22.2 | 10,192,718 | 8,302,955 | 11,740,622 | 9,777,251 |
| Great Lakes KCAP F3C Senior LLC | Class E Notes | 27.4 | — | — | 4,407,106 | 4,473,840 |
| Dryden 30 Senior Loan Fund | Subordinated Notes | 6.8 | 1,516,717 | 1,932,505 | 1,438,701 | 1,913,925 |
| Catamaran CLO 2014-2 Ltd. | Subordinated Notes | 24.9 | 6,132,465 | 1,221,236 | 6,314,484 | 2,158,200 |
| Catamaran CLO 2015-1 Ltd. | Subordinated Notes | 9.9 | 4,190,443 | 2,856,878 | 4,353,347 | 3,048,698 |
| Catamaran CLO 2016-1 Ltd. | Subordinated Notes | 24.9 | 9,440,106 | 6,854,783 | 9,717,150 | 7,067,073 |
| Catamaran CLO 2018-1 Ltd. | Subordinated Notes | 24.8 | 9,771,393 | 8,946,896 | 9,843,450 | 8,500,000 |
| Total | | | $ 48,825,983 | $ 36,871,295 | $ 55,480,626 | $ 44,325,000 |

1 Represents percentage of class held at September 30, 2019.
2 Other than Great Lakes KCAP F3C Senior LLC, none of our CLO Fund securities investments were managed by affiliates as of December 31, 2018
3 Other than Katonah III, Ltd and Dryden 30, all of our CLO Fund securities investments were managed by affiliates as of September 30, 2019.

**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 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.

We own 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 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.

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.

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, 2019 | As of December 31, 2018 |
|---|---|---|
| Investment at fair value | $ 33,548,354 | $ 32,621,188 |
| Total Assets | $ 33,548,354 | $ 32,621,188 |
| Total Liabilities | $ 968,642 | $ 1,970,455 |
| Total Equity | 32,579,712 | 30,650,733 |
| Total Liabilities and Equity | $ 33,548,354 | $ 32,621,188 |

**KCAP Freedom 3 LLC**
Summarized Statement of Operations

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Investment income | $ 1,341,881 | $ 1,148,571 | $ 3,957,429 | $ 3,566,385 |
| Operating expenses | 35,191 | 56,512 | 54,183 | 110,273 |
| Net investment income | 1,306,690 | 1,092,059 | 3,903,246 | 3,456,112 |
| Unrealized appreciation on investments | (1,663,956) | 529,662 | 1,928,979 | (35,274) |
| Net income | $ (357,266) | $ 1,621,721 | $ 5,832,225 | $ 3,420,838 |

**KCAP Freedom 3 LLC**
Schedule of Investments
September 30, 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 14.9%, 12/29 maturity | 100.0% | $ 41,634,567 | $ 33,548,354 |
| **Total Investments** | | | **$ 41,634,567** | **$ 33,548,354** |

(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

**KCAP Freedom 3 LLC**
Schedule of Investments
December 31, 2018

| Portfolio Company | Investment | Percentage Ownership by Joint Venture | Amortized Cost | Fair Value |
|---|---|---|---|---|
| KCAP F3C Senior Funding, LLC (1)(2) | Subordinated Securities, effective interest 11.5%, 12/29 maturity | 100.0% | $ 42,636,380 | $ 32,621,188 |
| **Total Investments** | | | **$ 42,636,380** | **$ 32,621,188** |

(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.

**BCP Great Lakes Partnership LP**

BCP Great Lakes Partnership 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 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, 2019 and December 31, 2018 was $24.2 million and $12.5 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, 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, 2019 and December 31, 2018, the Company has a $25.9 million and $12.5 million, respectively unfunded commitment to the BCP Great Lakes Partnership.

**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, 2019 and 2018.

*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.

*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 its 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 are 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 the Company 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 the investment in the Asset Manager Affiliates was sold on December 31, 2018. Prior thereto, we have 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. The fair value of our investment in our Asset Manager Affiliates was de minimis at September 30, 2019. There were no distributions from the Asset Manager Affiliates during the first three quarters of 2019. For the nine months ended September 30, 2018, we recognized dividend income of $920,000 from the Asset Manager Affiliates, while cash distributions received were approximately $1.9 million. 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 of par value of assets under management by our Asset Manager Affiliates was $300 million as of September 30, 2019 and December 31, 2018.

*Investment in Joint Ventures.* For the three months ended September 30, 2019 and 2018, the Company recognized $1.3 million and $0.8 million, respectively, in investment income from its investment in Joint Ventures. For the nine months ended September 30, 2019 and 2018, the Company recognized $3.5 million and $2.2 million, respectively, in investment income from its investments in Joint Ventures. As of September 30, 2019 and December 31, 2018, the fair value of our investments in Joint Ventures was approximately $45.4 million and $30.9 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 year-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, 2019 and 2018 was approximately $7.1 million and $7.2 million, respectively. Of these amounts, approximately $4.2 million and $4.8 million, respectively was attributable to interest income on our Debt Securities Portfolio. The decrease in interest income on our Debt Securities Portfolio was primarily the result of additional investments placed on non-accrual status since the prior period and the decrease in LIBOR rates.

Investment income for the nine months ended September 30, 2019 and 2018 was approximately $19.8 million and $20.8 million, respectively. Of these amounts, approximately $11.0 million and $12.9 million, respectively was attributable to interest income on our Debt Securities Portfolio.

At September 30, 2019 and December 31, 2018, the weighted average contractual interest rate on our loans and debt securities was approximately 9.4% and 10.0%, respectively. At September 30, 2019 and December 31, 2018, the weighted average contractual interest rate on our loans and debt securities, excluding non-accrual and partial non-accrual investments, was approximately 9.0% and 9.1%, 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, 2019 and 2018, approximately $1.6 million and $1.3 million, respectively, of investment income was attributable to investments in CLO Fund Securities. For the nine months ended September 30, 2019 and 2018, approximately $5.1 million and $4.7 million, respectively, of investment income was attributable to investments in CLO Fund Securities. On a tax basis, the Company recognized $5.9 million and $4.7 million of taxable distributable income on distributions from our CLO Fund Securities during the nine months ended September 30, 2019 and 2018, 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 and nine months ended September 30, 2019 were approximately $1.0 million and $2.1 million, respectively. There were no incentive fees earned during the third quarter of 2019.

*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 the Company's 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, 2019 and 2018 were approximately $4.8 million and $4.2 million, respectively.

For the three months ended September 30, 2019 and 2018, interest expense and amortization on debt issuance costs for the period was approximately $2.3 million and $1.9 million, respectively, on average debt outstanding of $131 million and $103 million, respectively.

Total expenses for the nine months ended September 30, 2019 and 2018 were approximately $18.9 million and $12.9 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 our 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, 2019 and 2018, interest expense and amortization on debt issuance costs for the period was approximately $6.1 million and $5.6 million, respectively, on average debt outstanding of $117 million and $106 million, respectively.

For the three months ended September 30, 2019 and 2018, approximately $0 and $1.0 million of expenses were attributable to employee compensation, including salaries, bonuses, employee benefits, payroll taxes and stock-based compensation expense, respectively. Since April 1, 2019, as a result of the Externalization, the Company has no longer has employees and does not incur employee compensation costs. For the three months ended September 30, 2019 and 2018, respectively, professional fees and insurance expenses totaled approximately $0.8 million and $0.9 million. For the three months ended September 30, 2019, Administrative services expense was approximately $0.4 million. Other general and administrative costs, which include rent expense on the Company’s lease obligation, and other administrative expenses, totaled approximately $0.3 million and $0.4 million for the three months ended September 30, 2019 and 2018, respectively.

The impairment charge related to our write down of our 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, 2019 and 2018, approximately $3.7 million and $3.2 million of expenses were attributable to compensation of former employees, including salaries, bonuses, employee benefits, payroll taxes and stock-based compensation expense, respectively. For the nine months ended September 30, 2019, we incurred approximately $2.2 million in compensation expense (primarily severance) in connection with the Externalization.

For the nine months ended September 30, 2019 and 2018, professional fees and insurance expenses totaled approximately $3.4 million and $2.7 million respectively. For nine months ended September 30, 2019, the Company incurred approximately $1.0 million of professional fees in connection with the Externalization. For the nine months ended September 30, 2019, Administrative services expense was approximately $0.8 million. Other general and administrative expenses, which includes rent expense on the Company’s lease obligation, technology and other office and administrative expenses, totaled approximately $1.4 million and $1.4 million for the nine months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019, we incurred approximately $187,000 in administrative costs 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, 2019, net investment income and net realized losses were approximately $1.1 million, or $0.03 per share. For the three months ended September 30, 2018, net investment income and net realized gains were approximately $2.8 million, or $0.08 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, 2019, net investment loss and net realized losses were approximately ($15.9) million, or ($0.42) per share. For the nine months ended September 30, 2018, net investment income and net realized gains were approximately $7.8 million, or $0.21 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, 2019, GAAP-basis net investment income was approximately $0.9 million or $0.02 per share, while tax-basis distributable income was approximately $5.1 million or $0.14 per share. For the nine months ended September 30, 2018, GAAP-basis net investment income was approximately $7.9 million or $0.21 per basic share, while tax-basis distributable income was approximately $8.8 million or $0.24 per share.

**Net Unrealized (Depreciation) Appreciation on Investments**

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 $(910) thousand, an unrealized depreciation of $1.1 million on our Joint Ventures investment, unrealized depreciation on our debt securities of $0.6 million, and unrealized depreciation of $21 thousand on our derivatives. During the three months ended September 30, 2018, our total investments had net unrealized depreciation of approximately $1.5 million. Included in the net unrealized depreciation are unrealized appreciation on CLO Fund Securities of approximately $688 thousand unrealized depreciation and on equity securities of approximately $172 thousand, as well as unrealized depreciation of the Asset Manager Affiliates of $1.0 million thousand, an unrealized appreciation of $282 thousand on our Joint Ventures investment and unrealized depreciation on our debt securities of $1.2 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 for the nine months ended September 30, 2019, are unrealized depreciation on CLO Fund Securities of approximately $0.8 million, net unrealized depreciation on equity securities of approximately $5.8 million, no unrealized 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 approximately $3.6 million. During the nine months ended September 30, 2018, our total investments had net unrealized depreciation of approximately $5.0 million. Included in the net unrealized depreciation are unrealized depreciation on CLO Fund Securities of approximately $125 thousand unrealized depreciation and on equity securities of approximately $335 thousand, as well as unrealized depreciation of the Asset Manager Affiliates of $2.0 million, an unrealized depreciation of $142 thousand on our Joint Ventures investment and unrealized depreciation on our debt securities of $2.4 million.

**Net Change in Stockholder's Equity Resulting From Operations**

The net decrease in stockholders' equity resulting from operations for the three months ended September 30, 2019 was ($4.3) million, or $(0.11) per basic share. Net increase in stockholders' equity resulting from operations for the three months ended September 30, 2018 was $1.3 million, or $0.04 per share.

The net decrease in stockholders' equity resulting from operations for the nine months ended September 30, 2019 was ($16.0) million, or $(0.43) per basic share. Net increase in stockholders' equity resulting from operations for the nine months ended September 30, 2018 was $2.6 million, or $0.07 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, 2019 and December 31, 2018 the fair value of investments and cash were as follows:

| | Investments at Fair Value | |
|---|---|---|
| **Security Type** | **September 30, 2019** | **December 31, 2018** |
| Cash | $ 341,166 | $ 5,417,125 |
| Restricted Cash | 1,010,578 | 3,907,341 |
| Short-term investments[2] | 23,180,863 | 44,756,478 |
| Senior Secured Loan | 104,599,092 | 77,616,209 |
| Junior Secured Loan | 70,492,986 | 70,245,535 |
| Senior Unsecured Bond | 532,267 | — |
| CLO Fund Securities | 36,871,295 | 44,325,000 |
| Equity Securities | 6,279,611 | 2,038,020 |
| Joint Ventures | 45,426,006 | 30,857,107 |
| Derivatives | 9,650 | — |
| Asset Manager Affiliates | — | 3,470,000 |
| Total | $ 288,743,515 | $ 282,632,815 |

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, 2019, we had approximately $125 million of par value of outstanding borrowings and our asset coverage ratio of total assets to total borrowings was 204%, 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 recently enacted 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, the Company’s asset coverage requirements for senior securities changed from 200% to 150%, effective as of March 29, 2019. We will continue to be prohibited by the indentures governing our 6.125% Notes (each, as defined and discussed in Note 6- “Borrowings”) from making distributions on our common stock if our asset coverage, as defined in the 1940 Act, falls below 200%.

During the third quarter of 2017, the company 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. In addition, due to the asset coverage requirement currently applicable to us as a BDC and a covenant that we agreed to in connection with the issuance of the 6.125% Notes Due 2022, the Company is limited in its ability to make distributions if its asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the distribution. As a result, despite the SBCA, we will continue to be prohibited by the indenture governing the 6.125% Notes Due 2022 from making distributions on its common stock if its asset coverage, as defined in the 1940 Act, falls below 200%. At September 30, 2019, we were in compliance with all of our debt covenants. 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.

Assuming the proposed merger with OHAI is completed, the Company expects to maintain adequate liquidity and compliance with regulatory and contractual asset coverage requirements.

On March 1, 2018, Great Lakes KCAP Funding I, LLC ("Funding"), our wholly owned subsidiary, entered into a senior secured revolving credit facility (the "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 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. Borrowings under the Revolving Credit Facility bear 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 Revolving Credit Facility is drawn, the fee will be 0.50% per annum. We intend to use the proceeds from borrowings under the Revolving Credit Facility for general corporate purposes, including to acquire certain qualifying loans, and such other uses as permitted under the Loan and Security Agreement.

The maturity date is the earliest of: (a) March 1, 2022 and (b) the date upon which all loans shall become due and payable in full, whether by acceleration or otherwise. The Revolving Credit Facility is secured by all of the assets held by Funding, and we have pledged our 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. At September 30, 2019, Funding was in compliance with all of its debt covenants. As of September 30, 2019, $48.0 million principal amount of borrowings was outstanding under the Revolving Credit Facility. Interest on borrowings under the Revolving Credit Facility is paid monthly. Borrowings under the Revolving Credit Facility are subject to redemption in whole or in part at any time or from time to time, at the option of the Funding.

**Investment in Joint Ventures**

During the third quarter of 2017, we entered into an agreement with Freedom 3 Opportunities, an affiliate of Freedom 3 Capital LLC, entered into an agreement to create the Joint Venture See "Investment in Joint Venture," above for further information.

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 Great Lakes KCAP FC3 Senior, LLC (formerly known as KCAP F3C Senior Funding, LLC). 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 is a reduction in the fair value of the Asset Manager Affiliates and increase the fair value of the Company's investment in the Joint Venture. The reduction in the fair value of the Asset Manager Affiliates was recognized as a realized loss on the Statement of Operations during the first quarter of 2019. The increase in the fair value our investment in the Joint Venture was recognized as an unrealized gain in the Statement of Operations during the first quarter of 2019.

**Investment in Great Lakes and Asset Purchase Letter Agreement**

We have invested in BCP Great Lakes Fund LP (the "BCP Great Lakes Partnership"), which in turn 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 Great Lakes Funding LLC. 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, 2019 was $24.2 million. Fair value has been determined utilizing the practical expedient pursuant to ASC 820-10. Pursuant to the terms of the BGP Great Lakes Fund LP Amended and Restated Exempted Limited Partnership Agreement (the "BCP Great Lakes Partnership Agreement"), we 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 BCP Great Lakes Partnership.

In March 2019, we increased its 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 us to be out of compliance with certain provisions of the Investment Company Act of 1940). As of September 30, 2019, we had a $25.9 million unfunded commitment to the BCP Great Lakes Partnership, subject to the limitations noted above.

On December 12, 2018, we and BCP entered into a letter agreement (the “Asset Purchase Letter Agreement”) pursuant to which we and BCP each agreed to use commercially reasonable efforts to effect the sale by BCP (or its affiliates or advisory clients of its affiliates), in one or more transactions, of certain assets held by BCP (or its affiliates or advisory clients thereof) that, taken together, have an aggregate principal amount of approximately $75 million, less $25 million of aggregate amount of capital contributions made by us to the BCP Great Lakes Partnership. In the second quarter of 2019 BCP’s obligations under the Asset Purchase Letter Agreement were satisfied.

Subject to prevailing market conditions, we intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. However, we may face difficulty in obtaining a new debt and equity financing as a result of current market conditions. In this regard, because our common stock has traded at a price below our current net asset value per share and we are limited in our ability to sell our common stock at a price below net asset value per share without stockholder approval (which we currently do not have), we have been and may continue to be limited in our ability to raise equity capital. See “Part I. Item 1. Business — Regulation — Common Stock”.” of our Annual Report on Form 10-K for the year ended December 31, 2018. 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, divestures, spin-offs, joint ventures and other similar transactions from time to time.

**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.

On March 29, 2018, our 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 SBCA. As a result, our asset coverage requirement for senior securities changed from 200% to 150%, effective as of March 29, 2019. However, despite the SBCA, we will continue to be prohibited by the indentures governing our 6.125% Notes Due 2022 from making distributions on our common stock if our asset coverage, as defined in the 1940 Act, falls below 200%. In any such event, we would be prohibited from making distributions required in order to maintain our status as a RIC.

The following table sets forth the quarterly distributions paid by us since 2017.

| | Distribution | Declaration Date | Record Date | Pay Date |
|---|---|---|---|---|
| 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 | $ 0.26 | | | |
| 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 | | | |
| 2017: | | | | |
| Fourth quarter | $ 0.12 | 9/22/2017 | 10/10/2017 | 10/26/2017 |
| Third quarter | 0.12 | 6/20/2017 | 7/7/2017 | 7/27/2017 |
| Second quarter | 0.12 | 3/21/2017 | 4/7/2017 | 4/28/2017 |
| First quarter | 0.12 | 12/14/2016 [1] | 1/6/2017 | 1/27/2017 |
| Total declared in 2017 | $ 0.48 | | | |

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

**OFF-BALANCE SHEET ARRANGEMENTS**

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, 2019 and December 31, 2018, the Company had approximately $28.3 million and $12.9 million commitments to fund investments, respectively. The Company may also enter into derivative contracts with off-balance sheet risk in connection with its investing activities.

**CONTRACTUAL OBLIGATIONS**

The following table summarizes our contractual cash obligations and other commercial commitments as of September 30, 2019:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than one year** | **1 - 3 years** | **3 - 5 years** | **More than 5 years** |
| Long-term debt obligations | $ 125,427,686 | $ — | $ 125,427,686 | $ — | $ — |
| Obligations under long-term lease | $ 3,735,368 | $ 800,436 | $ 2,401,308 | 533,624 | — |

**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, contained elsewhere herein: Significant Accounting Policies — Investments.

***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, 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. We assess 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. 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 Company has 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 its 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 Management's 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 payment-in-kind ("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, 2019, six 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 the Company 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 distributions from our Asset Manager Affiliates on the declaration date, which represents the ex-dividend date. Distributions in excess of tax-basis earnings and profits are recorded 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 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.

***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 the Company has 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 the Company's common stock granted under the Company's 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 the Company (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 Stockholder Payment.

***United States Federal Income Taxes***

The Company has elected and intends 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 its stockholders as specified therein. In order to qualify 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. The following table sets forth the quarterly distributions paid by us for the 2019, 2018 and 2017 calendar years.

| | Distribution | Declaration Date | Record Date | Pay Date |
|---|---|---|---|---|
| 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 | $ 0.26 | | | |
| 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 | | | |
| 2017: | | | | |
| Fourth quarter | $ 0.12 | 9/22/2017 | 10/10/2017 | 10/26/2017 |
| Third quarter | 0.12 | 6/20/2017 | 7/7/2017 | 7/27/2017 |
| Second quarter | 0.12 | 3/21/2017 | 4/7/2017 | 4/28/2017 |
| First quarter | 0.12 | 12/14/2016 [1] | 1/6/2017 | 1/27/2017 |
| Total declared in 2017 | $ 0.48 | | | |

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

**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, 2019, approximately 93% of our Debt Securities Portfolio were either floating rate with a spread to an interest rate index such as LIBOR or the prime rate. 72% of these floating rate loans contain LIBOR floors ranging between 1.00% and 1.50%. We generally expect that future portfolio investments will predominately be floating rate investments. As of September 30, 2019, we had $125.4 million (par value) of borrowings outstanding at a current weighted average rate of 5.8%, of which $77.4 million par value had a fixed rate and $48.0 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 Great Lakes KCAP Funding I, LLC 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, 2019 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 | $ 1,160,946 | $ 2,300,781 | $ 3,440,616 |
| Decrease in interest rate | $ (1,125,623) | $ (1,122,260) | $ (1,148,706) |

As shown above, net investment income assuming a 1% increase in interest rates would increase by approximately $1.2 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 $2.3 million and $3.4 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 $1.1 million, $1.1 million and $1.1 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 Securities Exchange Act of 1934, as amended (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, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. Other Information

### Item 1. Legal Proceedings

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, 2018, as supplemented by the risk factors previously described in Part II "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the three months ended March 31, 2019.

***The Merger is subject to closing conditions, including stockholder approval, that, if not satisfied or waived, will result in the Merger not being completed.***

The Merger is subject to closing conditions, including certain approvals of OHAI stockholders that, if not satisfied, will prevent the Merger from being completed. The closing condition that OHAI stockholders approve the Merger may not be waived under applicable law and must be satisfied for the Merger to be completed. OHAI currently expects that all directors and executive officers of OHAI will vote their shares of OHAI common stock in favor of the proposals presented at the special meeting. If OHAI stockholders do not approve the Merger and the Merger is not completed, the resulting failure of the Merger could have a negative impact on our business and operations.

***We may be unable to realize the benefits anticipated by the Merger, including estimated cost savings, or it may take longer than anticipated to achieve such benefits.***

The realization of certain benefits anticipated as a result of the Merger will depend in part on the integration of OHAI's investment portfolio with our portfolio and integration of OHAI's business. There can be no assurance that OHAI's investment portfolio or business can be operated profitably or integrated successfully into our operations in a timely fashion or at all. The dedication of management resources to such integration may detract attention from the day-to-day business of the combined company and there can be no assurance that there will not be substantial costs associated with the transition process or there will not be other material adverse effects as a result of these integration efforts. Such effects, including, but not limited to, incurring unexpected costs or delays in connection with such integration and failure of OHAI's investment portfolio to perform as expected, could have a material adverse effect on the financial results of the combined company.

We also expect to achieve certain cost savings from the Merger when the two companies have fully integrated their portfolios. It is possible that the estimates of the potential cost savings could ultimately be incorrect. The cost savings estimates also assume we will be able to combine our operations with OHAI's in a manner that permits those cost savings to be fully realized. If the estimates turn out to be incorrect or if we are not able to successfully combine OHAI's investment portfolio or business with our operations, the anticipated cost savings may not be fully realized, or realized at all, or may take longer to realize than expected.

### 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, 2019, we issued a total of 55,637 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, 2019, the aggregate value of the shares of our common stock issued under our DRIP was approximately $168,000.

### 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 July 31, 2019 by and among Portman Ridge Finance Corporation, Storm Acquisition Sub Inc., OHA Investment Corporation, and Sierra Crest Investment Management LLC (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K, as filed on August 1, 2019). |
| 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). |
| 10.5 | Third Amendment to Loan and Security Agreement, dated as of April 1, 2019, by and among Great Lakes KCAP Funding I, LLC, KCAP Financial, Inc., the financial institutions party to the Agreement from time to time as lenders, Cadence Bank, N.A., CIBC Bank USA (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K, as filed on April 2, 2019 (File No. 814-00735)) |
| 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.

**SIGNATURES**

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

| | | |
|---|---|---|
| | PORTMAN RIDGE FINANCE CORPORATION | |
| Date: November 7, 2019 | By | /s/ Edward Goldthorpe<br>Edward Goldthorpe<br>*President and Chief Executive Officer*<br>*(Principal Executive Officer)* |
| Date: November 7, 2019 | By | /s/ Edward U. Gilpin<br>Edward U. Gilpin<br>*Chief Financial Officer*<br>*(Principal Financial and Accounting Officer)* |

* * * * *

**Exhibit 31.1**

**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, 2019 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 7, 2019

By: / S / EDWARD GOLDTHORPE

**Edward Goldthorpe**
**President and Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 31.2**

**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, 2019 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 7, 2019

By: / S / EDWARD U. GILPIN

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

**Exhibit 32.1**

**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, 2019 (the "Report"), I, Edward Goldthorpe, President and Chief Executive 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 7, 2019

By: / S / EDWARD GOLDTHORPE

**Edward Goldthorpe**
**President and Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 32.2**

**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, 2019 (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 7, 2019 | By: | / S / EDWARD U. GILPIN |
| | | **Edward U. Gilpin** |
| | | **Chief Financial Officer** |
| | | **(Principal Financial Officer)** |