

**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 August 31, 2007

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.

GSC Investment Corp.

(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

12 East 49th Street, Suite 3200
New York, New York 10017
(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Common Shares, par value \$0.0001 per share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of outstanding common shares of the registrant as of October 11, 2007 was 8,291,384.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GSC Investment Corp.
Consolidated Balance Sheets

	As of	
	<u>August 31, 2007</u> (Unaudited)	<u>February 28, 2007</u>
ASSETS		
Investments at fair value (amortized cost of \$197,817,296 and \$0, respectively)		
Non-control/non-affiliate investments	\$ 193,822,981	\$ —
Control investments	344,250	—
Affiliate investments	31,806	—
Total investments at fair value	194,199,037	—
Cash and cash equivalents	2,849,824	1,030
Cash, securitization accounts	4,552,160	—
Interest receivable	3,505,927	—
Due from manager	583,442	—
Other assets	455,109	—
Deferred financing costs, net	1,128,528	—
Deferred offering costs	—	808,617
Total assets	<u>\$ 207,274,027</u>	<u>\$ 809,647</u>
LIABILITIES		
Debt	\$ 85,728,965	\$ —
Management and incentive fees payable	1,619,467	—
Payable from open trades	4,709,375	—
Accounts payable and accrued expenses	659,747	105,000
Interest and credit facility fees payable	461,817	—
Accrued offering cost	—	760,000
Due to affiliate	—	73,810
Total liabilities	<u>\$ 93,179,371</u>	<u>\$ 938,810</u>
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, par value \$.0001 per share, 100,000,000 common shares authorized, 8,291,384 and 67 common shares issued and outstanding, respectively	829	—
Capital in excess of par value	116,301,182	1,000
Accumulated undistributed net investment income (loss)	9,696	(130,163)
Accumulated net realized gain on sale of investments	1,445,255	—
Net unrealized appreciation on investments and derivatives	(3,662,306)	—
Total stockholders' equity (deficit)	<u>114,094,656</u>	<u>(129,163)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 207,274,027</u>	<u>\$ 809,647</u>
NET ASSET VALUE PER SHARE	<u>\$ 13.76</u>	<u>n/a</u>

See accompanying notes to consolidated financial statements.

GSC Investment Corp.

Consolidated Statement of Operations

	For the three months ended August 31, 2007 (unaudited)	For the six months ended August 31, 2007 (unaudited)
INVESTMENT INCOME		
Interest from investments	\$ 5,725,983	\$ 9,406,828
Interest from cash and cash equivalents	154,946	175,997
Management fee income	—	383,562
Other income	695	17,298
Total investment income	<u>5,881,624</u>	<u>9,983,685</u>
EXPENSES		
Interest and credit facility expenses	1,450,870	2,171,635
Professional fees	321,678	864,294
Base management fees	918,157	1,278,645
Incentive management fees	(18,546)	340,822
Insurance	157,388	275,429
Directors fees	82,750	178,840
Administrative	130,213	175,905
Cost of acquiring management contract	—	144,000
Organizational expense	—	22,868
Expenses before manager reimbursement	<u>3,042,510</u>	<u>5,452,438</u>
Expense reimbursement	<u>(317,676)</u>	<u>(583,442)</u>
Total expenses net of expense reimbursement	<u>2,724,834</u>	<u>4,868,996</u>
 NET INVESTMENT INCOME	 <u>3,156,790</u>	 <u>5,114,689</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain on sale of investments	424,187	1,445,255
Net change in unrealized depreciation on investments	(4,369,060)	(3,618,259)
Unrealized appreciation (depreciation) on derivatives	5,973	(44,047)
Net loss on investments	<u>(3,938,900)</u>	<u>(2,217,051)</u>
 NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	 <u>\$ (782,110)</u>	 <u>\$ 2,897,638</u>
 BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	 \$ (0.09)	 \$ 0.35
 COMMON STOCK OUTSTANDING—BASIC AND DILUTED	 8,291,384	 8,291,384

See accompanying notes to consolidated financial statements.

GSC Investment Corp.

Consolidated Schedule of Investments

August 31, 2007

(Unaudited)

<u>Company (a)</u>	<u>Industry</u>	<u>Investment</u>	<u>Principal</u>	<u>Cost</u>	<u>Fair Value</u>
Non-control/Non-affiliated investments - 169.9% (b)					
Ainsworth Lumber	Natural Resources	Unsecured notes 7.25%, 10/01/2012	100,000	\$ 75,126	\$ 70,670
Atlantis Plastics Films, Inc.	Packaging	First lien term loan 9.36%, 9/22/2011	6,549,746	6,521,712	6,255,008
Babson CLO LTD	Structured Finance Securities	Other/Structured Finance Securities 8.61%, 1/18/2021	1,500,000	1,140,859	1,140,000
Bankruptcy Management Solutions, Inc.	Financial Services	Second lien term loan 11.76%, 7/31/2013	1,985,000	2,003,634	1,925,450
Blaze Recycling & Metals, LLC	Steel Services	Senior secured notes 10.875%, 07/15/2012	3,500,000	3,492,450	3,460,800
CFF Acquisition LLC	Consumer Services	First lien term loan 9.09%, 7/31/2013	4,816,313	4,816,313	4,816,313
Claire's Stores, Inc.	Retail	First lien term loan 8.11%, 5/29/2014	2,800,000	2,583,554	2,559,760
Cortz, Inc.	Consumer Services	First lien term loan 9.18%, 11/30/2010	1,489,890	1,489,890	1,489,890
Edgen Murray II, L.P.	Oil and Gas	Second Lien Term loan 11.63%, 5/11/2015	5,000,000	4,835,935	4,775,000
Energy Alloys, LLC	Oil and Gas	Second lien term loan 12.57%, 10/05/2012	6,200,000	6,200,000	6,200,000
EuroFresh Inc.	Agriculture	Unsecured notes 11.50%, 1/15/2013	7,000,000	6,883,049	6,352,500
Gale Force CLO Ltd	Structured Finance Securities	Other/Structured Finance Securities 8.81%, 4/19/2021	4,000,000	2,842,400	2,840,000
GFSI Inc	Apparel	Senior secured notes 11.50%, 6/01/2011	18,925,000	18,884,811	19,019,625
Grant U.S. Holdings LLP	Natural Resources	Second lien term loan 11.86%, 9/20/2013	5,021,920	5,021,721	4,908,927
Group Dekko	Electronics	Second lien term loan 11.76%, 1/20/2012	6,670,000	6,670,000	6,670,000
Hopkins Manufacturing Corporation	Consumer Products	Second lien term loan 12.37%, 1/26/2012	3,250,000	3,245,257	3,185,000
IDI Acquisition Corp.	Healthcare Services	Senior secured notes 10.75%, 12/15/2011	3,800,000	3,551,739	3,496,000
Insight Pharmaceuticals LLC	Consumer Products	First lien term loan 9.61%, 3/31/2011	1,031,364	1,026,703	1,026,207
		First lien term loan 9.99%, 3/31/2012	1,125,262	<u>1,120,068</u>	<u>1,119,636</u>
				<u>\$ 2,146,771</u>	<u>\$ 2,145,843</u>

IPC Systems, Inc.	Electronics	First lien term loan 7.61%, 5/31/2014	50,000	44,500	43,750
Jason Incorporated	Manufacturing	Unsecured notes 13.00%, 11/01/2008	12,000,000	12,000,000	12,000,000
		Unsecured notes 13.00%, 11/01/2008	3,400,000	<u>3,400,000</u>	<u>3,400,000</u>
				<u>\$15,400,000</u>	<u>\$15,400,000</u>
Legacy Cabinets, Inc.	Building Products	Second lien term loan 12.88%, 8/18/2013	2,400,000	2,352,151	2,232,000
		First lien term loan 9.13%, 8/18/2012	1,881,000	<u>1,854,022</u>	<u>1,749,330</u>
				<u>\$ 4,206,173</u>	<u>\$ 3,981,330</u>
McMillin Companies LLC	Homebuilding	Senior secured notes 9.53%, 4/30/2012	11,000,000	10,201,278	9,570,000
Miller Heiman Acquisition Corp.	Business Services	First lien term loan 9.11%, 4/30/2012	1,792,217	1,792,217	1,792,217
Network Communications, Inc.	Publishing	Unsecured notes 10.75%, 12/01/2013	5,000,000	5,101,270	5,000,000
PRACS Institute, LTD	Healthcare Services	Second lien term loan 13.25%, 4/17/2013	3,000,000	3,000,000	3,000,000
Realogy Corp.	Financial Services	First lien term loan 6.35%, 10/10/2013	21,212	19,727	19,184
		First lien term loan 6.35%, 10/10/2013	78,788	<u>73,297</u>	<u>71,145</u>
				<u>\$ 93,024</u>	<u>\$ 90,329</u>
Redwood Toxicology Laboratory, Inc.	Healthcare Services	First lien term loan 9.32%, 2/27/2012	975,561	968,816	968,244
SILLC Holdings, LLC	Automotive	Second lien term loan 12.25%, 5/24/2011	23,049,210	22,836,620	22,634,324
Sportcraft, LTD	Leisure Equipment	Second lien term loan 13.11%, 3/31/2012	9,000,000	7,279,018	7,200,000
Stone Tower CLO	Structured Finance Securities	Other/Structured Finance Securities 8.93%, 4/17/2021	5,000,000	3,501,613	3,500,000
Stronghaven, Inc.	Packaging	Second lien term loan 11.00%, 10/31/2010	6,500,000	6,500,000	6,500,000
Targus Group International, Inc.	Consumer Products	Second lien term loan 12.86%, 5/22/2013	5,000,000	4,728,918	4,175,000
		Second lien term loan 8.87%, 11/22/2012	1,682,543	<u>1,482,954</u>	<u>1,531,113</u>
				<u>\$ 6,211,872</u>	<u>\$ 5,706,113</u>

<u>Company (a)</u>	<u>Industry</u>	<u>Investment</u>	<u>Principal</u>	<u>Cost</u>	<u>Fair Value</u>
Terphane Holdings Corp.	Packaging	Senior secured notes 12.50%, 6/15/2009	4,850,000	4,855,718	4,607,500
		Senior secured notes 12.50%, 6/15/2009	5,087,250	5,097,318	4,832,888
		Senior secured notes 15.11%, 6/15/2009	500,000	497,970	475,000
				<u>\$ 10,451,006</u>	<u>\$ 9,915,388</u>
Transportation Aftermarket Enterprises, Inc.	Automotive	Second lien term loan 12.61%, 6/30/2012	1,025,000	986,254	984,000
USS Mergerco, Inc.	Environmental	Second lien term loan 9.61%, 6/29/2013	5,960,000	5,818,158	5,364,000
Worldwide Express Operations, LLC	Logistics	First lien term loan 8.11%, 6/30/2013	7,000,000	6,982,743	6,982,500
X-Rite, Incorporated	Electronics	Second lien term loan 10.36%, 6/30/2013	4,000,000	4,037,513	3,880,000
Sub Total Non-control/Non-affiliated investments				<u>197,817,296</u>	<u>193,822,981</u>
Control investments — 0.3% (b)					
GSC CDO III, LLC	Financial Services	100% membership interest		-	344,250
Affiliate investments — 0.0% (b)					
GSC Partners CDO GP III, LP	Financial Services	6.24% Partnership interest		-	31,806
TOTAL INVESTMENT ASSETS - 170.2% (b)				<u>\$197,817,296</u>	<u>\$194,199,037</u>

(a) All of the Fund's equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Ainsworth Lumber, Atlantis Plastics Films, Inc., Babson CLO LTD, Gale Force CLO Ltd, Grant U.S. Holdings LLP, Stone Tower CLO, Terphane Holdings Corp., and X-Rite, Incorporated.

(b) Percentages are based on net assets of \$114,094,656 as of August 31, 2007.

See accompanying notes to consolidated financial statements.

GSC Investment Corp.

Consolidated Statements of Changes in Net Assets

	For the six months ended August 31, 2007 (Unaudited)
Operations:	
Net operating income before investment gains and losses	\$ 5,114,689
Net realized gain on sale of investments	1,445,255
Net unrealized depreciation on investments	(3,618,259)
Unrealized depreciation on derivatives	(44,047)
Net increase in net assets resulting from operations	<u>2,897,638</u>
Shareholder distributions:	
Distributions declared	(4,974,830)
Net decrease in net assets resulting from shareholder distributions	<u>(4,974,830)</u>
Capital share transactions:	
Issuance of common stock, net	116,301,011
Net increase in net assets resulting from capital share transactions	<u>116,301,011</u>
Total increase in net assets	114,223,819
Net assets at beginning of period	(129,163)
Net assets at end of period	<u>\$ 114,094,656</u>
Net asset value per common share	\$ 13.76
Common shares outstanding at end of period	8,291,384

See accompanying notes to consolidated financial statements.

GSC Investment Corp.

Consolidated Statements of Cash Flows

For the six months
ended August 31, 2007
(Unaudited)

Operating activities	
Net increase in net assets from operations	\$ 2,897,638
Adjustments to reconcile net increase in net assets from operations to net cash from operating activities:	
Net realized gain from investments	(1,445,255)
Net unrealized depreciation on investments	3,618,259
Net accretion of discount on securities	(517,630)
Paid-in-kind interest income	(72,990)
Amortization of deferred financing costs	97,171
Proceeds from sale and redemption of investments	97,948,986
Purchase of investments	(278,183,636)
Changes in operating assets and liabilities:	
Cash, securitization accounts	(4,552,160)
Deferred offering costs	808,617
Interest receivable	(3,432,937)
Due from manager	(657,252)
Other assets	(455,109)
Accrued deferred offering costs	(760,000)
Accounts payable and accrued expenses	554,747
Interest and credit facility fees payable	461,817
Management and incentive fees payable	1,619,467
Payable from open trades	4,709,375
Net cash used in operating activities	<u>(177,360,892)</u>
Financing activities	
Net proceeds from issuance of common stock	100,681,250
Borrowings on debt	129,208,119
Paydowns on debt	(43,479,154)
Credit facility financing cost	(1,225,699)
Payments of cash dividends	(4,974,830)
Net cash provided by financing activities	<u>180,209,686</u>
CHANGE IN CASH AND CASH EQUIVALENTS	2,848,794
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,030
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,849,824</u>
Supplemental Information:	
Interest paid during the period	\$ 1,612,647
Supplemental non-cash information	
Issuance of common stock	\$ 15,619,761
Purchase of investments	\$ 15,619,761

See accompanying notes to consolidated financial statements.

GSC INVESTMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of August 31, 2007
(Unaudited)

Note 1. Organization and Basis of Presentation

GSC Investment Corp. (the “Company”, “we” and “us”) is a non-diversified closed end management investment company incorporated in Maryland that has elected to be treated and is regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). We commenced operations on March 23, 2007 and completed our initial public offering (“IPO”) on March 28, 2007. The Company intends to file an election and to qualify to be treated for tax purposes as a regulated investment company (“RIC”) under subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”) commencing with our first taxable year as a corporation. We expect to continue to qualify and to elect to be treated for tax purposes as a RIC. Our investment objectives are to generate both current income and capital appreciation through debt and equity investments by primarily investing in private middle market companies and select high yield bonds.

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

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U. S. generally accepted accounting principles and include the accounts of the Company and its special purpose financing subsidiaries, GSC Investment Funding, LLC and GSC Investment Funding II, LLC. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All intercompany accounts and transactions have been eliminated in consolidation.

Interim consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the fiscal year ending February 29, 2008.

Note 2. Summary of Significant Accounting Policies

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

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

Cash, Securitization Accounts

Cash, securitization accounts includes amounts held in designated bank accounts representing payments received on securitized investments or other reserved amounts associated with the Company’s securitization facilities. The Company is required to use a portion of these amounts to pay interest expense, reduce borrowings, or pay other amounts in accordance with the related securitization agreements.

Investment Classification and Valuation

Classification

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

Valuation

Investments for which market quotations are readily available are valued at such market quotations subject to any decision by our board of directors to make a fair value determination to reflect significant events affecting the value of these investments. We value investments for which market quotations are not readily available at fair value as determined in good faith by our board of directors based on input from our Manager, our audit committee and, if our board or audit committee so request, a third party independent valuation firm. Determinations of fair value may involve subjective judgments and estimates. The types of factors that may be considered in a fair value pricing include the nature and realizable value of any collateral, the portfolio

company's ability to make payments, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors.

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

- Each investment is initially valued by the responsible investment professionals and preliminary valuation conclusions are documented and discussed with our senior management;
- An independent valuation firm engaged by our board of directors reviews at least one quarter of these preliminary valuations each quarter so that the valuation of each investment for which market quotes are not readily available is reviewed by an independent valuation firm at least annually;
- The audit committee of our board of directors reviews each preliminary valuation and our investment adviser and independent valuation firm (if applicable) will respond and supplement the preliminary valuation to reflect any comments provided by the audit committee; and
- Our board of directors discusses the valuations and determines the fair value of each investment in good faith based on the input of our investment adviser, independent valuation firm (if applicable) and audit committee.

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

Income Recognition

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

Paid-in-Kind Interest

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

Organizational Expenses

Organizational expenses consist principally of professional fees incurred in connection with the organization of the company and have been expensed as incurred.

Offering Costs

Offering costs consist principally of legal fees incurred by the Company related to the Company's IPO that was completed on March 28, 2007. These offering costs were charged directly against capital and are limited to \$1 million. All offering costs in excess of \$1 million will be paid by the Manager. As of August 31, 2007, the Company incurred approximately \$1.4 million relating to offering costs of which the Manager has reimbursed the Company approximately \$0.4 million.

Deferred Financing Costs

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

Income Taxes

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

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

The Company has adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In May 2007, the FASB issued Staff Position, FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* ("FSP FIN 48-1"), which provides guidance on how an enterprise should determine whether a tax position is effectively

settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective with the initial adoption of FIN 48. The adoption of FIN 48 and FSP FIN 48-1 did not have a material impact on our consolidated financial statements.

Dividends

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

The Company has adopted a dividend reinvestment plan that provides for reinvestment of our dividend distributions on behalf of our stockholders unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not “opted out” of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends.

New Accounting Pronouncements

In September 2006, the FASB released Statement of Financial Accounting Standards No. 157 “Fair Value Measurements” (“FAS 157”). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. At this time, management is evaluating the implications of FAS 157 and its impact on the financial statements has not yet been determined.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company’s choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in FAS 157. This statement is effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of FAS 157. At this time, the Company is evaluating the implications of SFAS No. 159, and its impact in the consolidated financial statements has not yet been determined.

Note 3. Investments

The composition of our investments as of August 31, 2007, at cost and fair value was as follows:

	Investments at Cost	Investments at Fair Value	Fair Value Percentage of Total Portfolio
First lien term loans	\$ 29,293,563	\$ 28,893,184	14.9%
Second lien term loans	86,998,134	85,164,814	43.9%
Senior secured notes	46,581,282	45,461,813	23.4%
Unsecured notes	27,459,445	26,823,170	13.8%
Other/Structured finance securities	7,484,872	7,480,000	3.8%
Equity/Limited partnership interest	0	376,056	0.2%
Total	\$ 197,817,296	\$ 194,199,037	100.0%

Note 4. Agreements

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

On May 18, 2007, our board of directors approved a ministerial amendment to the Management Agreement providing that the base management fee and incentive fee shall be computed with reference to the fiscal year of the Company rather than the calendar year in order to align the fee calculation dates with our financial reporting cycle.

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

The incentive fee consists of the following two parts:

The first, payable quarterly in arrears, equals 20% of our pre-incentive fee net investment income, expressed as a rate of return on the value of the net assets at the end of the immediately preceding quarter, that exceeds a 1.875% quarterly (7.5% annualized) hurdle rate measured as of the end of each fiscal quarter. Under this provision, in any fiscal quarter, our investment adviser receives no incentive fee unless our pre-incentive fee net investment income

exceeds the hurdle rate of 1.875%. Amounts received as a return of capital are not included in calculating this portion of the incentive fee. Since the hurdle rate is based on net assets, a return of less than the hurdle rate on total assets may still result in an incentive fee.

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

For the three and six months ended August 31, 2007, we incurred approximately \$0.9 million, and \$1.3 million, respectively, in base management fees, \$0.2 million and \$0.3 million, respectively, in incentive fees related to pre-incentive fee net investment income, and \$(0.2) million and \$0, respectively, in incentive management fees related to net realized capital gains. \$(0.2) million represents the reversal of prior period incentive management fees related to net capital gains. As of August 31, 2007, approximately \$1.6 million was unpaid and included in management and incentive fees payable in the accompanying consolidated balance sheet.

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

GSC Group has agreed not to charge the Company for any expenses under the Administration Agreement until the Company's total assets exceeds \$500 million. Therefore, for the three and six months ended August 31, 2007, we did not accrue or incur any administrative fees and there were no outstanding fees payable to the administrator.

Note 5. Borrowings

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

On April 11, 2007, we formed GSC Investment Funding LLC ("GSC Funding"), a wholly owned consolidated subsidiary of the Company, through which we entered into a revolving securitized credit facility (the "Revolving Facility") with Deutsche Bank AG, as administrative agent, under which we may borrow up to \$100 million. A significant percentage of our total assets have been pledged under the Revolving Facility to secure our obligations thereunder. Under the Revolving Facility, funds are borrowed from or through certain lenders at prevailing commercial paper rates or, if the commercial paper market is at any time unavailable, at prevailing LIBOR rates, plus 0.70% payable monthly. As of August 31, 2007, there was \$74.0 million outstanding under the Revolving Facility and the Company continues to be in compliance with all of the limitations and requirements of the Revolving Facility.

On May 1, 2007, we formed GSC Investment Funding II LLC ("GSC Funding II"), a wholly owned consolidated subsidiary of the Company, through which we entered into a \$25.7 million term securitized credit facility (the "Term Facility" and, together with the Revolving Facility, the "Facilities") with Deutsche Bank AG, as administrative agent, which was fully drawn at closing. A significant percentage of our total assets have been pledged under the Term Facility to secure our obligations thereunder. The Term Facility bears interest at prevailing commercial paper rates or, if the commercial paper market is at any time unavailable, at prevailing LIBOR rates, plus 0.70%, payable quarterly. As of August 31, 2007, there was \$11.7 million outstanding under the Term Facility and the Company continues to be in compliance with all of the limitations and requirements of the Term Facility.

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

For the three and six months ended August 31, 2007, the interest expense accrued under the Revolving Facility was approximately \$1.1 million and \$1.6 million, respectively, and the interest expense accrued under the Term Facility was \$0.3 million and \$0.4 million, respectively.

Note 6. Interest Rate Cap Agreements

In April and May 2007, pursuant to the Facilities, the Company entered into three interest rate cap agreements with Deutsche Bank AG with notional amounts of \$34 million, \$6 million and \$60.9 million at costs of \$75,000, \$12,000, and \$44,000, respectively. The agreements provide for a payment to the Company in the event LIBOR exceeds 8%, mitigating our exposure to increases in LIBOR. The \$34 million and \$6 million interest rate cap agreements expire in February 2014 and the \$60.9 million interest rate cap agreement expires in November 2013.

The total notional amount for all interest rate cap agreements is \$100.9 million with a fair value of \$86,953 which is recorded in other assets on the Company's consolidated balance sheet at August 31, 2007. The Company records changes in the fair value of the interest rate cap agreements quarterly based on the current market valuation at quarter end as unrealized depreciation or appreciation on derivatives in the Company's consolidated statement of operations.

Note 7. Stockholders' Equity

On March 20, 2007, the Company issued 1,041,317 shares of common stock, priced at \$15.00 per share, to GSC Group, in exchange for the general partnership interest and a limited partnership interest in GSC Partners CDO III GP, LP, collectively valued at approximately \$15.6 million.

On March 28, 2007, the Company completed its IPO of 7,250,000 shares of common stock, priced at \$15.00 per share, before underwriting discounts and commissions. Total proceeds received from the IPO, net of the underwriter's discount and commissions, were approximately \$101.6 million.

Note 8. Earnings per share

The following information sets forth the computation of basic and diluted net increase in net assets per share resulting from operations for the three and six months ended August 31, 2007:

	Three months ended August 31, 2007	Six months ended August 31, 2007
Basic and diluted		
Net increase (decrease) in net assets resulting from operations	\$ (782,110)	\$2,897,638
Total common shares outstanding	8,291,384	8,291,384
Earnings per common share-basic and diluted	\$ (0.09)	\$ 0.35

Note 9. Dividend

For the three months ended August 31, 2007, the Company declared a dividend on August 14, 2007 of \$0.36 per share for a total of approximately \$3.0 million. The record date was August 24, 2007 and the dividend was distributed on August 31, 2007. For the three months ended May 31, 2007, the Company declared a dividend on May 21, 2007 of \$0.24 per share for a total of approximately \$2.0 million. The record date was May 29, 2007 and the dividend was distributed on June 6, 2007.

Note 10. Financial Highlights

The following is a schedule of financial highlights for the six months ended August 31, 2007:

Per share data:	
Net asset value at beginning of period	\$ (0.02)
Issuance of common stock, net	14.03
Net investment income	0.62
Net realized gains on investments	0.17
Net unrealized depreciation on investments	(0.44)
Net increase in stockholders' equity	0.35
Distributions declared from net investment income	(0.60)
Distributions from net realized capital gains	0.00
Total distributions to stockholders	(0.60)
Net asset value at end of period	<u>\$ 13.76</u>
Per share market value at end of period	\$ 12.40
Total return based on market value (1)	(13.33%)
Total return based on net asset value (2)	1.02%
Shares outstanding at end of period	8,291,384

Ratio/Supplemental data:

Net assets at end of period	\$ 114,094,656
Ratio of net investment income to average net assets (3)	9.31%
Ratio of operating expenses to average net assets (3) (4)	6.04%
Ratio of incentive management fees to average net assets (3)	0.70%
Ratio of credit facility related expenses to average net assets (3)	4.46%
Ratio of total expenses to average net assets (3) (4)	11.20%

- (1) For the six months ended August 31, 2007, the total return based on market value equals the decrease in market value at August 31, 2007 of \$12.40 per share over the IPO offering price per share at March 23, 2007 of \$15.00, plus the declared dividend of \$0.24 and \$0.36 per share for stockholders of record on May 29, 2007 and August 24, 2007, respectively, divided by the IPO offering price per share. Total return based on market value is not annualized.
- (2) For the six months ended August 31, 2007, the total return based on net asset value equals the change in net asset value during the period plus the declared dividend of \$0.24 and \$0.36 per share for stockholders of record on May 29, 2007 and August 24, 2007, respectively, divided by the beginning net asset value during the period. The calculation was adjusted for shares issued during the period. Total return based on net asset value is not annualized.
- (3) The ratios reflect an annualized amount.
- (4) For the six months ended August 31, 2007, incorporating the expense reimbursement arrangement, the ratio of operating expenses to average net assets is 4.84%, and the ratio of total expenses to average net assets is 10.00%.

Note 11. Related Party Transactions

On March 20, 2007, the Company issued 1,041,317 shares of common stock, priced at \$15.00 per share, to GSC Group, in exchange for the general partnership interest and a limited partnership interest in GSC Partners CDO III GP, LP, collectively valued at approximately \$15.6 million. Additionally,

GSC Group assigned its rights to act as collateral manager for GSC Partners CDO Fund III, Limited to the Company. The Company paid GSC Group approximately \$0.1 million to acquire the rights to act as collateral manager.

Note 12. Subsequent events

On September 29, 2007, the Company received cash proceeds of \$9.3 million in respect of the repayment, at par plus all accrued interest, of our investment in the Sportcraft Ltd second lien term loan.

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

The following discussion should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this quarterly report. In addition to historical information, the following discussion and other parts of this quarterly report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed in Item 1A in our Annual Report on Form 10-K for the fiscal year ended February 28, 2007.

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

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

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

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

OVERVIEW

GSC Investment Corp. is a newly-incorporated Maryland corporation that has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Our investment objectives are to generate both current income and capital appreciation through debt and equity investments by primarily investing in private middle market companies and select high yield bonds. We intend to file an election to be treated as a regulated investment company ("RIC") under subchapter M of the Internal Revenue Code commencing with our first taxable year as a corporation. We commenced operations on March 23, 2007 and completed our initial public offering ("IPO") on March 28, 2007. We are externally managed and advised by our investment adviser, GSCP (NJ), L.P.

We used the net proceeds of our IPO to purchase approximately \$100.7 million in aggregate principal amount of debt investments from GSC Partners CDO Fund III, Limited ("CDO Fund III") a CDO managed by our investment adviser. We used borrowings under our Facilities (as defined below)

to purchase approximately \$115.1 million in aggregate principal amount of debt investments in April and May 2007 from CDO Fund III and GSC Partners CDO Fund Limited ("CDO Fund I"), another CDO managed by our investment adviser.

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

While our primary focus is to generate both current income and capital appreciation through investments in debt and equity securities of private middle market companies and high-yield bonds, we intend to invest up to 30% of our assets in opportunistic investments. Opportunistic investments may include investments in distressed debt, debt and equity securities of public companies, credit default swaps, emerging market debt, and structured finance vehicles, including collateralized debt obligations ("CDO") holding debt, equity or synthetic securities. As part of this 30%, we may also invest in debt of private middle market companies located outside the United States. Given our primary investment focus on first and second lien loans and mezzanine debt in private companies and high yield bonds, we believe our opportunistic investments will allow us to supplement our core investments with other investments that are within our investment adviser's expertise that we believe offer attractive yields and/or the potential for capital appreciation.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we have to invest at least 70% of our total assets in "qualifying assets," including securities of private U.S. operating companies or public U.S. companies whose securities are not listed on a national securities exchange registered under the Exchange Act (i.e., New York Stock Exchange, American Stock Exchange and The NASDAQ Global Market), cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, we are only allowed to borrow money such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing, with certain limited exceptions. The amount of our borrowing will depend on our investment adviser's assessment of market conditions and other factors.

Revenues

We generate revenue in the form of interest income and capital gains on the debt investments that we hold and capital gains, if any, on equity interests that we may acquire in portfolio companies. We expect our debt investments, whether in the form of first and second lien leveraged loans, mezzanine debt or high yield bonds, to have terms of up to ten years, and to bear interest at either a fixed or floating rate. Interest on debt will be payable generally either quarterly or semi-annually. In some cases our debt investments may provide for a portion of the interest payable to be paid-in-kind. To the extent interest is paid-in-kind, it will be payable through the increase of the principal amount of the obligation by the amount of interest due on the then-outstanding aggregate principal amount of such obligation. The principal amount of the debt and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. Any such fees will be generated in connection with our investments and recognized as earned. We may also invest in equity securities, which may, in some cases, include preferred securities that pay dividends on a current basis.

Additionally, pursuant to an agreement with our investment adviser entered into on October 17, 2006, prior to becoming a BDC, we acquired the right to act as investment adviser to CDO Fund III and collect the management fees related thereto from March 20, 2007 until the liquidation of the CDO Fund III assets. We paid our investment adviser a fair market price of \$144,000 for the right to act as investment advisor to CDO Fund III.

Expenses

Our primary operating expenses include the payment of investment advisory and management fees, professional fees, directors and officers insurance, fees paid to independent directors and overhead expenses, including, at such time that we have \$500 million in total assets, our allocable portion of our administrator's overhead under the administration agreement. Our allocable portion is based on the proportion that our total assets bears to the total assets administered by our administrator. Our investment advisory and management fees compensate our investment adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions, including those relating to: organization; calculating our net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by our investment adviser payable to third parties, including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies; interest payable on debt, if any, incurred to finance our investments; offerings of our common stock and other securities; investment advisory and management fees; administration fees; fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents of the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; to the extent we are covered by any joint insurance policies, our allocable portion of the insurance premiums for such joint policies; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us or our administrator in connection with administering our business. For a period of 12 months beginning March 23, 2007, we will be reimbursed by the manager for operating expenses to the extent that our total annual operating expenses (other than investment advisory and management fees and interest and credit facility expenses) exceed an amount equal to 1.55% of our net assets attributable to common stock.

Pursuant to the investment advisory and management agreement, we pay our investment adviser a fee for investment advisory and management services consisting of a base management fee and an incentive fee.

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

The incentive fee has two parts, as follows:

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

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

On May 18, 2007, our board of directors approved a ministerial amendment to the investment advisory and management agreement providing that the base management fee and incentive fee shall be computed with reference to the fiscal year of the Company rather than the calendar year (in order to align the fee calculation dates with our financial reporting cycle).

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

PORTFOLIO AND INVESTMENT ACTIVITY

During the six months ended August 31, 2007, we made 124 investments in an aggregate principal amount of \$286.9 million consisting of \$141.8 million to new portfolio companies and \$145.1 million to existing portfolio companies. Also during the six months ended August 31, 2007, we had \$81.9 million in exits and repayments resulting in net investments of \$205.0 million for the period.

During the three months ended August 31, 2007, we made 25 investments in an aggregate principal amount of \$43.8 million consisting of \$28.9 million to new portfolio companies and \$14.9 million to existing portfolio companies. Also during the three months ended August 31, 2007, we had \$47.7 million in exits and repayments resulting in net repayments of \$3.9 million for the period.

At August 31, 2007, we had 46 investments in 38 portfolio companies with a median investment size of \$4.2 million and a weighted average life of 4.8 years. The overall portfolio composition consisted of 14.9% first lien term loans, 43.9% second lien term loans, 23.4% senior secured notes, 13.8% unsecured notes, 3.8% structured finance securities and 0.2% equity/limited partnership interests. The weighted average current yield on our first lien term loans, second lien term loans, senior secured notes, unsecured notes and other/structured finance securities were 9.1%, 12.6%, 11.7%, 12.5% and 12.4% respectively. There were no nonperforming or delinquent investments.

At August 31, 2007, 40.4% or \$78.3 million of our interest-bearing portfolio was in fixed rate debt with a weighted average current coupon of 11.9% and 59.6% or \$115.5 million of our interest-bearing portfolio was in floating rate debt with a weighted average current spread of LIBOR plus 6.2%.

The following table shows the portfolio composition by industry grouping at fair value as of August 31, 2007.

Portfolio composition by industry grouping at fair value as of August 31, 2007

	August 31, 2007	
	Investments at Fair Value	Percentage of Total Portfolio
Automotive	\$23,618,324	12.2%
Packaging	22,670,395	11.6%
Apparel	19,019,625	9.8%
Manufacturing	15,400,000	7.9%
Consumer Products	11,036,956	5.7%
Oil and Gas	10,975,000	5.7%
Electronics	10,593,750	5.5%
Homebuilding	9,570,000	4.9%
Structured Finance Securities	7,480,000	3.9%
Healthcare Services	7,464,244	3.8%
Leisure Equipment	7,200,000	3.7%

	August 31, 2007	
	Investments at Fair Value	Percentage of Total Portfolio
Logistics	6,982,500	3.6%
Agriculture	6,352,500	3.3%
Consumer Services	6,306,203	3.2%
Environmental	5,364,000	2.8%
Publishing	5,000,000	2.6%
Natural Resources	4,979,597	2.5%
Building Products	3,981,330	2.1%
Steel Services	3,460,800	1.8%
Retail	2,559,760	1.3%
Financial Services	2,391,836	1.2%
Business Services	1,792,217	0.9%
Total	\$ 194,199,037	100.0%

The following table shows the portfolio composition by geographic location at fair value as of August 31, 2007. The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

Portfolio composition by geographic location at fair value as of August 31, 2007

	August 31, 2007	
	Investments at Fair Value	Percentage of Total Portfolio
Midwest	\$ 50,628,515	26.1%
Southeast	48,714,398	25.1%
West	34,626,838	17.8%
Mid-Atlantic	32,446,552	16.7%
International	14,894,984	7.7%
Other	7,480,000	3.8%
Northeast	5,407,750	2.8%
Total	\$ 194,199,037	100.00%

OPERATIONS

Investment Income

For the six months ended August 31, 2007, total investment income consisted of approximately \$9.4 million in interest income from investments, \$0.2 million in interest income from cash and cash equivalents and other income and \$0.4 million in fees from managing CDO Fund III. We accrued only a nominal amount of PIK for the period.

For the three months ended August 31, 2007, total investment income consisted of approximately \$5.7 million in interest income from investments and \$0.2 million in interest income from cash and cash equivalents and other income. We accrued only a nominal amount of PIK for the period.

Operating Expenses

For the six months ended August 31, 2007 total operating expenses before manager reimbursement consisted of \$2.2 million in interest and credit facility expense, \$0.9 million in professional fees, \$1.3 million in base management fees, \$0.3 million in incentive management fees and \$0.8 million in other expenses.

For the three months ended August 31, 2007 total operating expenses before manager reimbursement consisted of \$1.5 million in interest and credit facility expense, \$0.3 million in professional fees, \$0.9 million in base management fees and \$0.4 million in other expenses.

The Manager has agreed to reimburse the Company for operating expenses to the extent that the total annual operating expenses (other than investment advisory and management fees and interest and credit facility expense) exceeds an amount equal to 1.55% of our net assets attributable to our common stock. For the six months ended August 31, 2007, we recorded \$0.6 million in expense reimbursement from the Manager based upon our total estimated annual operating expenses. For the three months ended August 31, 2007, we recorded \$0.3 million in expense reimbursement.

Net Realized Gains/Losses on Sales of Investments

For the six months ended August 31, 2007, the Company had approximately \$1.4 million of net realized gains. The most significant realized gain for the period was \$1.0 million attributable to the repayment of the Strategic Finance Company Senior Notes.

For the three months ended August 31, 2007, the Company had approximately \$0.4 million of net realized gains.

Net Unrealized Gains/Losses on Investments

For the six months ended August 31, 2007, the Company's investments had an increase in net unrealized depreciation of approximately \$3.6 million. The most significant changes in unrealized depreciation for the period were \$0.6 million in McMillin Companies LLC senior secured notes, \$0.6 million in the Tagus Group International, Inc. second lien term loan, \$0.5 million in EuroFresh Inc. senior notes, \$0.5 million in Terphane Holdings Corp senior secured notes and \$0.5 million in the USS Mergerco, Inc. second lien term loan.

For the three months ended August 31, 2007, the Company's investments had an increase in net unrealized depreciation of approximately \$4.4 million. The most significant changes in unrealized depreciation for the period were \$0.7 million in EuroFresh Inc. senior notes, \$0.6 million in McMillin Companies LLC senior secured notes, \$0.6 million in the Targus Group International, Inc. second lien term loan, \$0.6 million in Terphane Holdings Corp senior secured notes and \$0.5 million in the USS Mergerco Inc. second lien term loan.

Net Unrealized Gains/Losses on Derivatives

For the six months ended August 31, 2007, the Company recorded unrealized depreciation on derivatives of \$44,047 relating to a decrease in value of the interest rate caps purchased pursuant to the Facilities.

For the three months ended August 31, 2007, the Company recorded unrealized appreciation on derivatives of \$5,973 relating to an increase in value of the interest rate caps.

Changes in Net Asset Value from Operations

For the six months ended August 31, 2007, we recorded a \$2.9 million net increase in net assets resulting from operations. Based on 8,291,384 common shares outstanding as of August 31, 2007, our net per share increase in net assets resulting from operations was \$0.35.

For the three months ended August 31, 2007, we recorded a \$0.8 million net decrease in net assets resulting from operations. Based on 8,291,384 common shares outstanding as of August 31, 2007, our net per share decrease in net assets resulting from operations was \$0.09.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity and capital resources have been generated primarily from the net proceeds of its IPO, advances from the Revolving Facility and the Term Facility (each as defined below), as well as cash flows from operations. On March 28, 2007, we completed our IPO and issued 7,250,000 common shares and received net proceeds of \$101.7 million.

On April 11, 2007, we entered into a revolving securitized credit facility (the "Revolving Facility") pursuant to which we may borrow up to \$100 million. Advances under the Revolving Facility were used to purchase \$55.8 million in aggregate principal amount of debt investments from CDO Fund III. Future advances under the Revolving Facility may be used to purchase additional investments as they become available. A significant percentage of our total assets have been pledged under the Revolving Facility to secure our obligations thereunder. Under the Revolving Facility, funds are borrowed from or through certain lenders at prevailing commercial paper rates or, if the commercial paper market is at any time unavailable, at prevailing LIBOR rates, plus 0.70%, payable monthly.

On May 1, 2007, we entered into a \$25.7 million term securitized credit facility (the "Term Facility" and, together with the Revolving Facility, the "Facilities"), which was fully drawn at closing. The proceeds of term facility, together with additional advances under our Revolving Facility, were used to purchase \$59.3 million in aggregate principal amount of debt investments from CDO Fund I. A significant percentage of our total assets have been pledged under the Term Facility to secure our obligations thereunder. The Term Facility bears interest at prevailing commercial paper rates or, if the commercial paper market is at any time unavailable, at prevailing LIBOR rates, plus 0.70%, payable quarterly.

As of August 31, 2007, we have borrowed an aggregate of \$85.7 million under the Facilities and have \$26 million of undrawn commitments remaining. As of August 31, 2007, our asset coverage ratio, as defined in the 1940 Act, was 233%.

As of August 31, 2007 the fair value of investments and cash and cash equivalents, cash, Facilities accounts, and outstanding borrowings under the Facilities were as follows:

	Fair Value	Percent of Total
Cash and cash equivalents	\$ 2,849,824	1.4%
Cash, Facilities accounts	4,552,160	2.3%
First lien term loans	28,893,184	14.3%
Second lien term loans	85,164,814	42.2%
Senior secured notes	45,461,813	22.6%
Unsecured notes	26,823,170	13.3%
Structured finance securites	7,480,000	3.7%
Equity/limited partnership interests	376,056	0.2%
Total	\$ 201,601,021	100.0%
Outstanding borrowings	\$ 85,728,965	

On August 14, 2007, our Board of Directors declared a dividend of \$0.36 per share payable on August 31, 2007 to common stockholders of record on August 24, 2007.

OFF-BALANCE SHEET ARRANGEMENTS

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our business activities contain elements of market risk. We consider our principal market risks to be fluctuations in interest rates and the valuations of our investment portfolio. Essential to our business is managing these risks. Accordingly, we have systems and procedures designed to identify and analyze our risks, to establish appropriate policies and thresholds and to continually monitor these risks and thresholds by means of administrative and information technology systems and other policies and processes.

Interest Rate Risk

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

Our investment income is affected by fluctuations in various interest rates, including LIBOR and the prime rate. We expect that a large portion of our future portfolio will be comprised of floating rate investments that utilize LIBOR. Our interest expense is affected by fluctuations in the commercial paper rate or, if the commercial paper market is unavailable, LIBOR. As of August 31, 2007, we had \$85.7 million of borrowings outstanding at a floating rate tied to the prevailing commercial paper rate plus a margin of 0.70%.

In April and May 2007, pursuant to the Facilities, the Company entered into three interest rate cap agreements with notional amounts of \$34 million, \$6 million and \$60.9 million. These agreements provide for a payment to the Company in the event LIBOR exceeds 8%, mitigating our exposure to increases in LIBOR.

We have analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that our balance sheet as of August 31, 2007 were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical change of 1% in interest rates would cause a corresponding change of approximately \$0.3 million to net assets from operations over a one year period.

Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could magnify or diminish our sensitivity to interest rate changes. Accordingly no assurances can be given that actual results would not materially differ from the potential outcome simulated by this estimate.

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our board of directors. Investments for which market quotations are readily available are valued at such market quotations. We value investments for which market quotations are not readily available at fair value as determined in good faith by our board under our valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations that are assigned. The types of factors that we may take into account in fair value pricing of our investments include, as

relevant, the nature and realizable value of any collateral, third party valuations, the portfolio company's ability to make payments and its earnings 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.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures.

The Company's management, under the supervision and with the participation of various members of management, including our CEO and our CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, our CEO and CFO have concluded that our current disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Controls.

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) that occurred during the three months ended August 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Our business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our common stock. For a discussion of these risks, please refer to Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended February 28, 2007 and Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarterly period ended May 31, 2007.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

SIGNATURES

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

Date: October 12, 2007

GSC INVESTMENT CORP.

By /s/ THOMAS V. INGLESBY

Thomas V. Inglesby

Director and Chief Executive Officer, GSC Investment Corp.

By /s/ RICHARD T. ALLORTO, JR.

Richard T. Allorto, Jr.

Chief Financial Officer, GSC Investment Corp.

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

I, Thomas V. Inglesby, certify that:

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

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

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

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

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

(b) *Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986;*

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

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

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

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

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

Date: October 12, 2007

/s/ Thomas V. Inglesby

Thomas V. Inglesby
Chief Executive Officer

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

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

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

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

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

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

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

(b) *Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986;*

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

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

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

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

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

Date: October 12, 2007

/s/ Richard T. Allorto, Jr.

Name: Richard T. Allorto, Jr.

Chief Financial Officer

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

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

Thomas V. Inglesby, the Chief Executive Officer and Richard T. Allorto, Jr., the Chief Financial Officer of GSC Investment Corp., each certifies that, to the best of his knowledge:

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

Date: October 12, 2007

/s/ Thomas V. Inglesby

Name: Thomas V. Inglesby
Chief Executive Officer

/s/ Richard T. Allorto, Jr.

Name: Richard T. Allorto, Jr.
Chief Financial Officer