Zacks Small-Cap Research

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Alcentra Capital Corp. (ABDC-NASDAQ)

ABDC: Q4 Takes a Hit on an Investment Sale

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	10/29/2015
Current Price (03/10/16)	$10.67
Target Price	**$13.00**

OUTLOOK

Alcentra Capital is a business development company (BDC) with a disciplined portfolio approach and the benefit of an affiliation with BNY Mellon, its single largest shareholder. The company's target market is the lower middle-market, which management believes traditional lenders underserve. ABDC shares, which provide 12.8% dividend yield, trades at a significant discount to the company's $14.43 NAV (net asset value) / share. NAV has declined to from $14.63 per share at the time of the company's May 2014 IPO due in large part to the sale of one investment at a loss.

SUMMARY DATA

52-Week High	**$14.21**
52-Week Low	**$9.02**
One-Year Return (%)	**-8.7**
Beta	**0.66**
Average Daily Volume (sh)	**28,715**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$144**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**44**
Insider Ownership (%)	**3**
Annual Cash Dividend	**$1.36**
Dividend Yield (%)	**12.75**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**7.1**
P/E using 2016 Estimate	**7.1**
P/E using 2017 Estimate	**7.3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Fin-SBIC&Comercial**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	4.0 A	7.4 A	5.9 A	6.7 A	23.6 A
2015	8.2 A	8.5 A	8.5 A	8.7 A	33.9 A
2016	8.5 E	8.9 E	9.1 E	9.3 E	35.9 E
2017					38.0 E

Adjusted NII per Share
(before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	$0.23 A	$0.46 A	$0.34 A	$0.34 A	$1.34 A
2015	$0.37 A	$0.34 A	$0.35 A	$0.34 A	$1.43 A
2016	$0.35 E	$0.36 E	$0.37 E	$0.38 E	$1.41 E
2017					$1.49 E

Disclosures begin on page 15

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KEY POINTS

- Alcentra Capital is a business development company (BDC) with a disciplined portfolio approach and the benefit of an affiliation with BNY Mellon, its single largest shareholder.
- The company's roughly $259 million portfolio is invested in 30 companies, with about 85% in debt and 15% in equity.
- The company targets the lower middle-market, which is under served by traditional lenders.
- To mitigate its risk, the company conducts substantial due diligence, seeks rigorous financial covenants and diversifies its investments across a broad range of sectors and portfolio companies. No one sector comprises more than 17% of the total investment portfolio.
- The weighted average yield on the company's debt portfolio is 12.4%, up from 12.2% in the third quarter of 2015.
- At $10.67, the shares trade at a significant 22% discount to the company's $14.43 NAV (net asset value) / share. NAV has declined from the $14.63 per share at the time of its May 2014 IPO.
- The company's lower valuation than its peers, and its best in class management fee structure for investors makes the stock a buy. We believe that ABDC is worth $13 per share and should trade at a dividend rate closer to the average yield of its competitors of 10%

2015 Earnings

For the fourth quarter of 2015, the company reported total investment income of $8.7 million versus $6.7 million, a gain of 30%. Adjusted and net investment income was $4.5 million, or $0.34 per share virtually flat with last year. During the three months ended December 31, 2015, Alcentra recorded a net loss in unrealized depreciation on investments of **$10.9 million, primarily due to the write down of the investment in DRC Emergency Services and a realized gain of $2.6 million from the sale of Net Access, LLC to Cologix, Inc.** As a result there was a decrease in net assets resulting from operations during the three months December 31, 2015 of $2.0 million, or $0.15 per share. Net asset value (NAV) was $195.0 million, or $14.43 per share, as of December 31, 2015 versus $14.87 on December 31, 2014. During Q4 the company received proceeds from repayments and amortizations of $22.3 million and invested $37.5 million including investments made four new companies:

- Xpress Global Systems, headquartered in Chattanooga, TN is a nationwide logistics provider of time definite surface transportation, warehousing, distribution, and related value-added services.
- National Technologies, Inc., based in Aurora, IL provides design, installation, splicing, testing and repair/maintenance services of fiber optic cables to the telecommunications industry.
- NWN Acquisition Holding Company, LLC of Waltham, MA is a regionally focused provider of IT equipment and mission critical services.
- Medsurant Holdings, LLC, in Philadelphia is one of the leading national providers of neuro intraoperative monitoring services to healthcare facilities.

For the full year, the company generated investment income of $33.9 million and adjusted and net investment income of $19.3 million, or $1.43 per share up from $1.34 in 2014. The year produced an increase in net assets resulting from operations of $12.6 million, or $0.93 per share. In total, the company invested $107 million in debt and equity securities during 2015. This included investments in 10 new portfolio companies. Proceeds received from repayments and amortizations were $63 million resulting in a net $44 million invested. $1.36 per share in dividends was paid during the year.

RECENT EVENTS

Three investment events have already occurred in Q1. Chronologically they are:

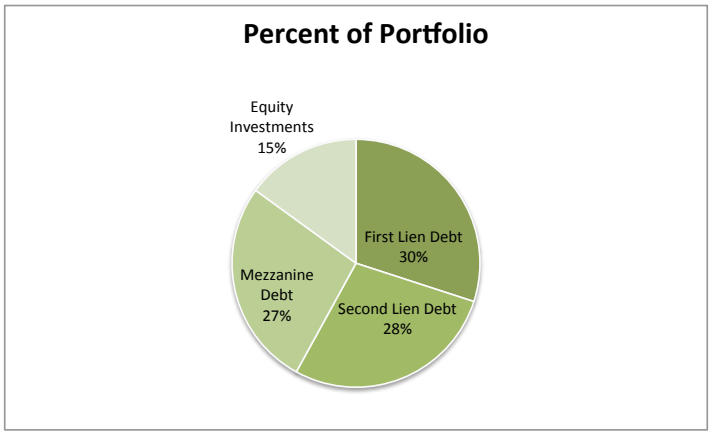
January 4, 2016: Health Fusion was acquired and repaid its $4.8 million 1st lien investment in full. A gain **of approximately $1.8 million was realized** on the warrants.

January 15, 2016: A2Z Wireless was acquired and repaid approximately $9.8 million of the debt owed pursuant to a 1st lien investment, which bore interest at a rate of 12% per annum, and paid a **pre-payment premium of $507,207**. Subsequently, Alcentra funded an $11.2 million investment in A2Z Wireless (10.00% first lien) and committed to fund up to an additional $3.8 million.

January 19, 2016: DRC Emergency Services, LLC ("DRC") was sold for $2 million (which included a related tax benefit.) This resulted in a realized loss of approximately $10 million.

INVESTMENT PORTFOLIO

Chart 1. Distribution of Investments



As of December 31, 2015 $296 million was invested in 32 companies. Since then it has sold two of those companies. The portfolio then was 30% first lien debt, 28% second lien debt, 27% mezzanine debt and 15% equity investments. The company reached its goal of reducing equity to about 10% - 15% of its total investment portfolio as of Q4. On December 31, 2015, 48% of the investments were fixed rate, with the balance floating rate, and the company's average investment was valued at $9.6 million at amortized cost

and $9.3 million at fair market value. The largest industry sector was healthcare, which was 17% of the portfolio.

The largest portfolio company investment is in DBi Services. It was valued by amortized cost and fair value at approximately $17.1 million and $22.8 million, respectively and had the greatest unrealized gain in the portfolio. DBi Services, Inc., headquartered in Hazelton, PA, was founded in 1978. It provides infrastructure maintenance, operations and management solutions primarily in North America for government agencies, utilities, private industries, railways, retailers and other infrastructure owners. Alcentra led a $35 million offering in 2014, which provided the Company with growth capital to support its expansion plans and working capital needs. In January it won a contract as a joint venture partner with Fluor (FLR) for a design-build and maintain project by the Arizona Department of Transportation (ADOT) to provide design, construction and maintenance services for the Loop 202 South Mountain Freeway. Located in the Phoenix metropolitan area, this will be the largest highway project in the state's history.

The greatest unrealized loss in the portfolio of almost $4 million is from Show Media. Show Media, based in New York, NY, provides interactive media and advertising displays on digital tablets in taxis and limousines. It is the world leader in interactive digital network delivering custom brand oriented content to 100 million taxicab passengers per year in the US and China. Show Media provides in-car video screens and associated content and mobile device management software that provides targeted media and advertising primarily to casino patrons and C-level business executives. This company's greatest challenge is the rise of Uber and other car sharing services that threaten traditional taxi fleets.

Table 1: Investments as of December 31, 2015

Company	Industry	Year Invested	Cost	Fair Value	$ Change	% Change
DBi Holding LLC	Infrastructure Maintenance	2014	17,611,477	22,894,780	5,283,303	30%
ACT Lighting	Distribution	2014	10,330,768	12,753,733	2,422,965	23%
Dentistry for Children	Healthcare: Dentistry	2011	17,039,488	18,972,488	1,933,000	11%
HealthFusion	**Healthcare Business Services**	**2013**	**5,168,000**	**7,007,913**	**1,839,913**	**36%**
A2Z Wireless	Telecom	2015	9,722,622	10,379,594	656,972	7%
Response Team 1	Restoration Services	2014	12,830,771	13,259,437	428,666	3%
National Technologies Inc.	Telecom Services	2015	8,107,269	8,445,625	338,356	4%
Bioventus	Healthcare	2014	11,810,851	12,000,000	189,149	2%
NWN Acquisition Holding Company	Business Services	2015	4,869,375	4,968,750	99,375	2%
Medsurant Holdings, LLC	Healthcare Business Services	2015	6,138,000	6,200,000	62,000	1%
Triton Technologies	Telecom	2014	1,188,731	1,200,000	11,269	1%
Graco Supply & Integrated Services	Aerospace & Defense	2015	4,000,000	4,000,000	-	0%
Radiant Logistics	Asset Light Logistics	2015	10,000,000	10,000,000	-	0%
GST AutoLeather	Automotive	2014	16,320,605	16,320,605	-	0%
Nation Safe Drivers	Automotive	2014	11,721,154	11,721,154	-	0%
PharmaLogic	Healthcare / Nuclear Pharmacies	2015	15,500,000	15,500,000	-	0%
Conisus	Healthcare Marketing / Media	2015	11,750,000	11,750,000	-	0%
Stancor	Manufacturing	2014	5,981,818	5,981,818	-	0%
Black Diamond Rentals	Oil & Gas Services	2013	13,127,489	13,127,489	-	0%
Aphena Pharma Solutions	Packaging	2014	3,793,657	3,793,657	-	0%
My Alarm Center LLC	Security/ Alarm Services	2015	9,500,000	9,500,000	-	0%
Xpress Global Systems	Transportation & Logistics	2015	5,475,386	5,475,386	-	0%
Alpine Waste	Waste Services	2014	11,047,685	11,047,685	-	0%
IGT	Industrials	2014	10,159,840	10,068,757	(91,083)	-1%
Southern Technical Institute	Educational Services	2012	14,338,600	13,890,332	(448,268)	-3%
FST Technical Services	Semiconductor Services	2013	14,466,264	13,943,722	(522,542)	-4%
Battery Solutions	Environmental Services	2013	6,623,154	6,095,154	(528,000)	-8%
City Carting	Waste Services	2012	12,695,791	11,695,949	(999,842)	-8%
Wholesome Sweeteners	Beverage, Food & Tobacco	2012	5,000,000	3,788,000	(1,212,000)	-24%
Media Storm	Advertising, Printing & Publishing	2011	4,801,509	3,250,544	(1,550,965)	-32%
Show Media	Advertising, Printing & Publishing	2012	7,522,476	3,610,000	(3,912,476)	-52%
DRC Emergency Services	**Government Services**	**2013**	**12,823,731**	**1,804,817**	**(11,018,914)**	**-86%**

Source: Company Filings

Both DRC Emergency Services and HealthFusion have been sold since December 31, 2015.

DIVIDENDS

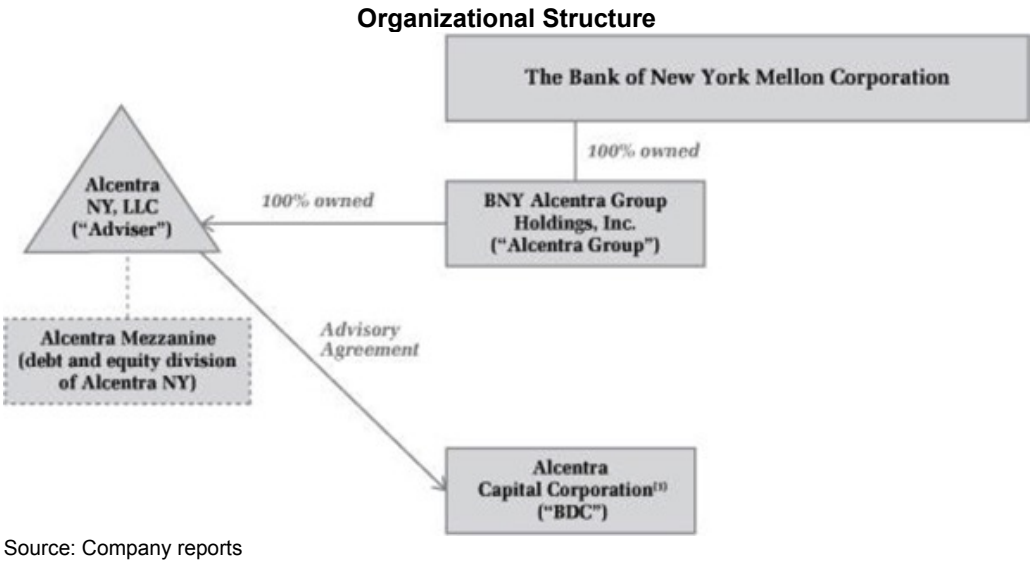
In order to maintain preferential tax treatment, BDCs such as Alcentra must distribute a minimum of 90% of their income to shareholders. The company targets a 9.0% dividend yield. Based on its dividend history, with a regularly scheduled quarterly dividend of $0.34 since August of 2014, Alcentra has met that goal. The $0.34 quarterly dividend equates to a $1.36 annual dividend and a current yield of 13.3%.

Date	Dividend	Share Price	Yield
June-14	$0.17	$12.22	6%
Aug-14	$0.34	$10.90	12%
Nov-14	$0.34	$11.77	12%
March-15	$0.34	$12.86	11%
May-15	$0.34	$13.13	10%
Aug-15	$0.34	$11.95	11%
Dec-15	$0.34	$11.60	12%

OVERVIEW

Alcentra Capital Corporation, a business development company (BDC), is based in New York City and was formed in 2013 to continue and grow the BDC business of BNY Mellon-Alcentra Mezzanine Partners. It went public in May 2014. It invests solely in middle market debt (85%) and equity (15%). Of its 30 portfolio companies, all are private except one (Radiant Logistics – RLGT) and all are based in the US. Alcentra NY employees eight people and leverages the talent of others working at its corporate parent BNY ALCENTRA GROUP, who has 115 people. The two groups are co-located in 200 Park Avenue. Alcentra NY also manages a $75 million private fund in addition to the public BDC that is in its wind down phase.

Chart 2. Organizational Structure of Alcentra



Source: Company reports

Investment Adviser – Alcentra NY

The publically traded Alcentra Capital Corporation (ABDC) pays Alcentra NY a management fee and an incentive fee, although Alcentra NY waives these fees in quarters where performance falls below certain thresholds tied to the company's targeted 9.0% dividend payment. Alcentra NY's investment professionals have worked together for more than eight years and have collectively invested more than $500 million in lower middle-market companies. The company's CEO Paul Echausse was a founder of Alcentra Mezzanine in 1998. He oversees the company's Investment Committee, whose members each have a minimum of 20 years of investment experience.

Alcentra invests in growth companies that generally have generated growth of 2x-3x GDP or have an upcoming growth catalyst. For the most part, the companies in which Alcentra invests need capital to fund their growth initiatives or to implement a change of ownership structuring including launching an LBO. Alcentra provides customized debt and equity financing solutions to lower middle-market companies. These companies generally rely on BDCs such as Alcentra and other alternative financing sources for much of their financing requirements. The companies to which Alcentra lends generally have revenues of between $10.0 million and $100.0 million and EBITDA of between $5 million and $15 million. The company's loans to any one individual company generally range from $5 million to $15 million. Management believes that maintaining a cap on loans across a wide range of investment vehicles helps Alcentra diversify its risk profile.

On May 14, 2014, Alcentra launched its IPO at $15.00/share, raising approximately $111 million. Immediately prior to the IPO, Alcentra acquired the investment assets of the BNY Mellon-Alcentra Mezzanine III portfolio, which comprised about $156 million in debt and equity investments. The company financed this acquisition for $64.3 million in cash and $91.5 million in ABDC shares. At the same time, the company also acquired approximately $29 million of debt and equity investments held by BNY Alcentra Group Holdings for $29 million in cash.

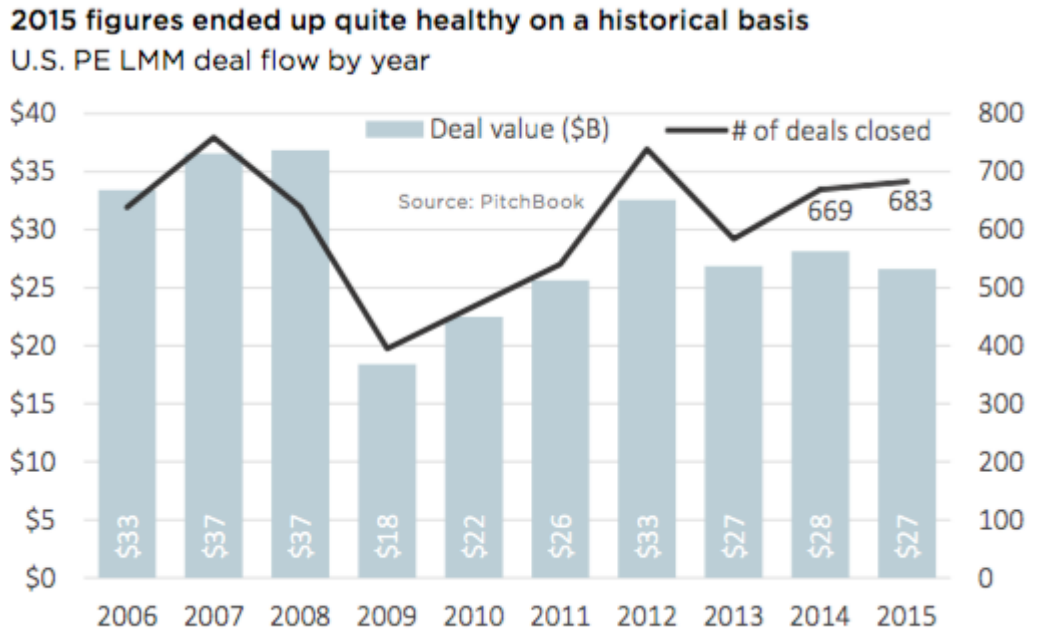
Benefit of BNY Mellon Relationship

BNY Mellon is Alcentra's administrator, as noted. It is a leading investment company with roughly $28.5 trillion of assets under custody. BNY Mellon has a presence in 35 countries. It had approximately $1.7 trillion of assets under management in its overall asset management businesses at year-end 2014. The company's affiliation with BNY Mellon gives it access to an extensive network, which Alcentra leverages to find attractive middle-market investment opportunities.

BNY Mellon also maintains a substantial retail Wealth Management business that provides investment advisory services to high net worth individuals and families and manages more than $200 billion and operates 38 offices nationwide. BNY Mellon Wealth Management interacts with privately owned businesses, which is another source for Alcentra to uncover potential investment opportunities. It sources approximately 10% of its deals from this network.

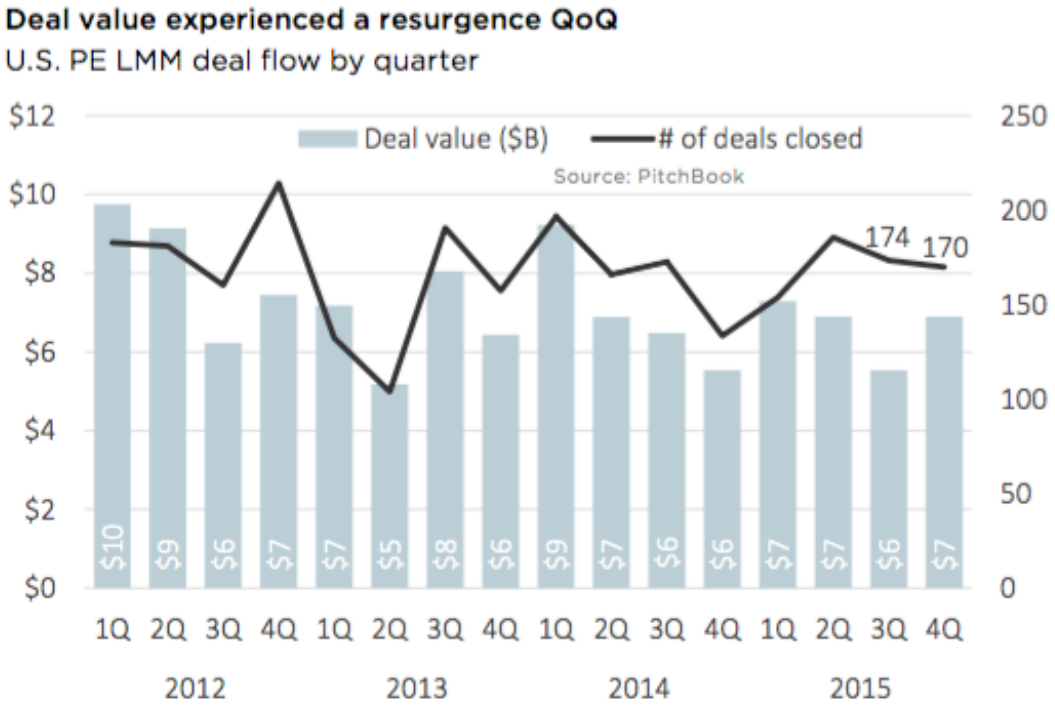
TARGET MARKET

Chart 2. Annual Lower Middle Market Deal Flow



The company targets the **lower middle-market** for its lending activities, as it believes that companies in this market generally have less access to capital than larger firms. Total deal value in this subsector was down in 2015 over 2014 by $1 billion. This market is considered to be companies with under $50 million in EBIDTA. Most of these are privately held and are generally less leveraged relative to their enterprise value than larger companies that have a greater range of financing options. All of the companies Alcentra is currently invested in are private except for one, Radiant Logistics (RLGT).

Chart 3. Quarterly Lower Middle Market Deal Flow



Middle market deal activity has been strong over the past few years, according to PitchBook. BDCs and other alternative lenders have stepped in to fill the void created as traditional lenders have reduced their exposure to the middle market or exited altogether. BDCs were created as part of the Small Business Investment Incentive Act of 1980 and are not constrained by the same lending guidelines that regulate commercial banks and other traditional lenders. According to the Fordham Urban Law Journal, one of the primary purposes of the Small Business Investment Incentive Act is to allow BDCs to raise funds from both public and private sources in order to help facilitate the flow of capital to small businesses. Loans by BDCs increased to $55 billion in 2014 from $17 billion in 2010, according to Deloitte LLP. In total, the loan market for the lower middle market was roughly $370 billion in 2015, according to *PitchBook* estimates.

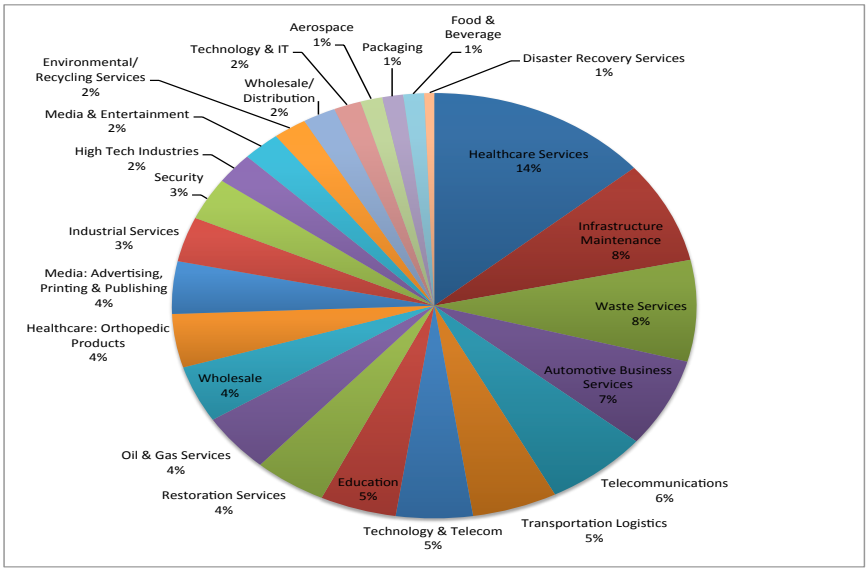
COMPETITION

The company competes primarily with traditional and alternative lenders that are also targeting the middle to lower middle markets. The other lenders it frequently sees looking at the same deals as it are OFS Capital Management, FIdus Investment Corp (FDUS), Triangle Capital Corp (TCAP) and Saratoga.

RISK MITIGATION STRATEGY

The company's largest industry sectors are: healthcare services, infrastructure maintenance, waste services, automotive business services, and telecommunications based on current market valuation. All its current investments are in companies that are headquartered in the U.S. Alcentra's goal is to generate interest of about 8% to 10% on senior term loans and 12% to 15% on mezzanine investments. In Q4 2015, the weighted average yield on the company's holdings was 12.4%. Alcentra invests in companies that are generally highly leveraged. In fact, if their debt were rated, the majority would probably be rated below-investment grade. Because the company primarily invests in privately held lower-middle-market companies, its investments are also relatively illiquid. The company is a long-term investor and structures its investments accordingly, using long-term sources of capital to fund its investing activities. Loans generally have maturities of 5-7 years. Alcentra also tries to position itself as a partner to management teams of companies in which it invests, sometimes taking board seats and providing operational advice. This is consistent with the mandate for BDCs, which are not passive investors.

Chart 4. Fair Value Distribution by Sector



To mitigate its risk, the company diversifies its investments across a number of sectors, as illustrated above. For example, the company's largest sector exposure is healthcare, which comprises 14% of its portfolio. We believe regulations mandate that no single investment can account for more than 25% of a BDC's total holdings and Alcentra appears to be well within that limit. Alcentra has only about 4% of its portfolio exposed to the current difficulties facing the energy sector, namely Black Diamond Rentals. The company also seeks debt investments with financial covenants such as minimum EBITDA, total debt/EBITDA and fixed charge coverage. The company also conducts substantial due diligence before making an investment, including frequently hiring a consultant to interview a range of customers, suppliers and competitors. Only a roughly 2% to 4% of the investments it reviews lead to actual investment, according to the company.

Once the investment has been made, Alcentra maintains frequent interaction and discussion with management teams to monitor its investments. Alcentra management attends investee company meetings including board of director meetings and often commissions independent market information, including from consultants.

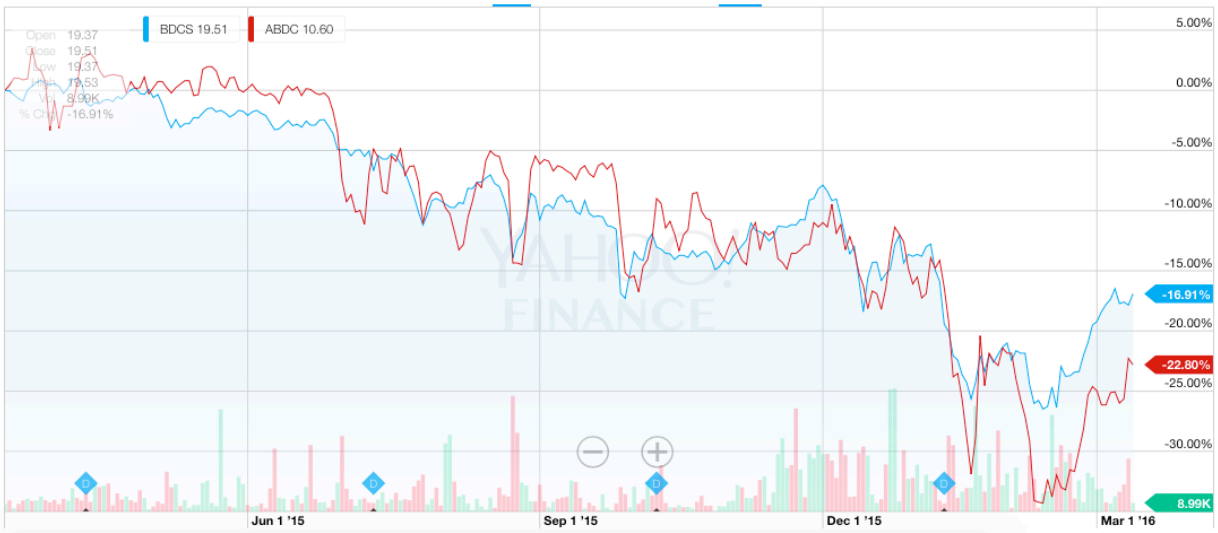
LEVERAGE

Currently, BDC regulations limit leverage to a maximum of 1.0x their equity value, although there have been discussions to raise that to 2.0x, according to Forbes. Alcentra's debt-to-equity ratio was well below the 1.0x threshold. The company has indicated that its targeted leverage ratio is in the 0.65-0.75x range. For the December quarter, the company's weighted average leverage in its debt portfolio was 3.72x EBITDA, the same as in Q3.

VALUATION

Generally, shares of BDCs have been under pressure in recent months, reflecting concerns about interest rates, the high-yield market, credit risk and dividend sustainability, among other factors. Over the past year, ABDC shares have underperformed the Wells Fargo BDC Index losing 23% versus the index's loss of 17%. Nevertheless, at $10.67, the shares trade at a significant 26% discount to the company's $14.43 NAV (net asset value) / share. At the current price, we believe the risk / reward ratio could be attractive for investors seeking dividend income who have a higher than average risk tolerance and longer time horizon.

Chart 5. Wells Fargo BDC Index versus Alcentra



Source: Yahoo! Finance

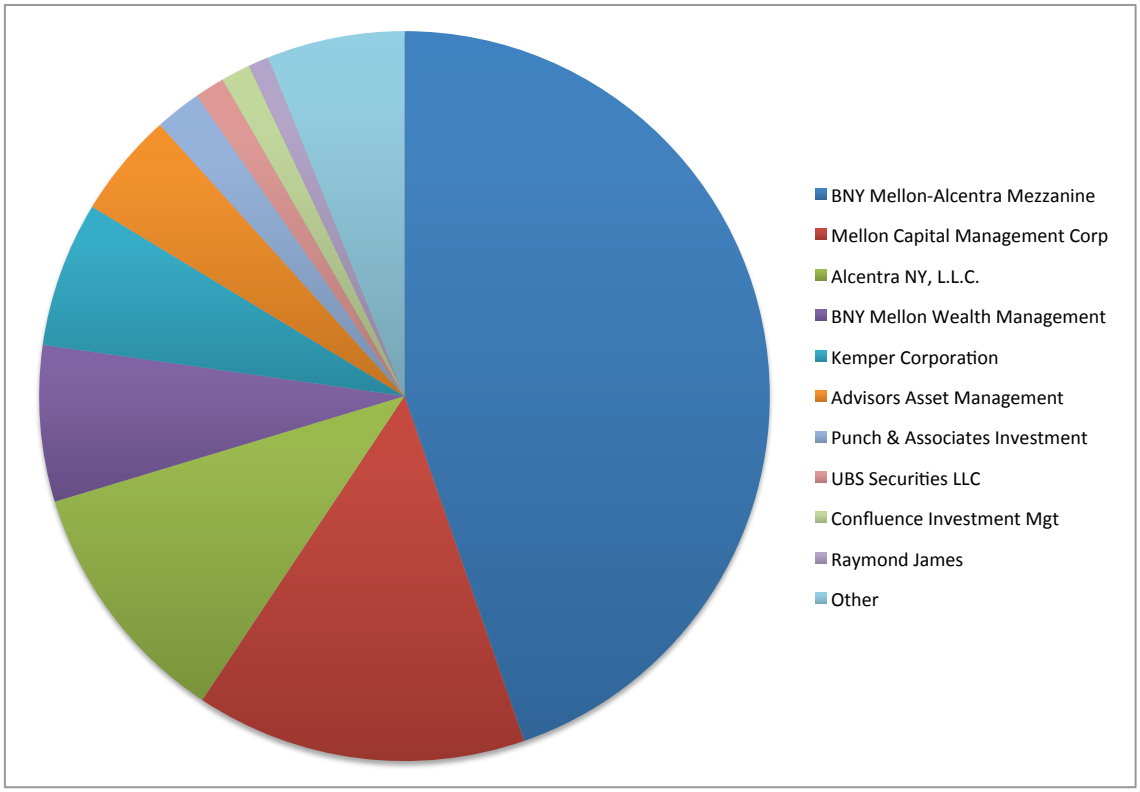
On valuation metrics such as EV / forward revenue and P/E, ABCD shares appear to trade in-line to below those of peers. As noted, on an NAV basis, the shares trade at a discount. Although there is a fairly wide valuation gap among the BDCs shown in the table below, ABDC's discount is steeper than the average, owning in part to the decline of its NAV to the above noted $14.43 per share from $14.63 per share at the time of its May 2014 IPO.

We remain at a Buy rating and $13 price target on the shares, which would put it closer to the average 10% yield. This implies a 22% upside, as noted we remain cautious on near-term share price appreciation for the sector.

Company	Ticker	Price	52-Week High	52-Week Low	Div.	Yield	NAV	Disc to NAV
Alcentra Capital	ABDC	$10.60	$14.44	$8.87	$1.36	11.6%	$14.43	26.5%
American Capital	ACAS	14.22	15.87	11.92	0	0.0%	19.88	28.5%
Apollo Investment Corp	AINV	5.40	8.03	4.26	0.72	13.3%	7.56	28.6%
Ares Capital Corp	ARCC	13.74	17.37	11.01	1.34	9.8%	16.46	16.5%
BlackRock Capital Investm	BKCC	8.94	10.2	5.88	0.80	9.0%	10.17	12.1%
Fidus Investment Corp.	FDUS	14.49	17	7.49	1.65	11.4%	15.17	4.5%
Fifth Street Finance Corp.	FSC	5.05	7.36	4.4	0.59	11.6%	8.40	39.9%
Garrsion Capital Inc.	GARS	10.33	15.44	9.79	1.12	10.8%	13.98	26.1%
Gladstone Capital Corp.	GLAD	7.19	9.25	4.71	0.70	9.7%	8.38	14.2%
KCAP Financial	KCAP	3.22	7.34	2.62	0.60	18.8%	5.82	44.7%
Main Street Capital Corp.	MAIN	30.67	33.15	24.21	2.25	7.3%	21.24	-44.4%
Newtek Business Services	NEWT	12.65	10.95	9.37	1.46	11.6%	14.06	10.0%
Triangle Capital Corp.	TCAP	18.80	24.71	14.91	2.18	11.6%	15.23	-23.4%
TriplePoine Venture Growth	TPVG	9.95	14.9	8.83	1.31	13.1%	14.52	31.5%
Average					$1.07	10%	$12.83	14%

INSIDER HOLDINGS

The company's largest shareholders are BNY Mellon, and Kemper Corporation (KMPR-not rated).



RISKS

We believe the company faces risks that confront the overall BDC sector. These include:

- **Interest rate risk:** We believe the company faces the risk of a rising interest rate environment, although management believes that as it continues to rebalance some of the equity in its portfolio to debt and continues to expand the debt portfolio, it could benefit from a potential increase in interest rates in terms of net investment income.

- **Credit risk:** Alcentra could make investments into companies that are not as creditworthy as management believes or some of the investments in its existing portfolio could experience deteriorating fundamental business results.

- **Default risk:** Potential deterioration in the underlying fundamentals of a portfolio company or companies could lead to a default on loans that Alcentra expects repaid.

- **Dividend sustainability:** If the company experiences some deterioration in its underlying performance, it might be forced to reduce its dividend.

- **Competitive risk:** The company competes with alternative lenders such as other BDCs and, in some cases, with traditional lenders. Competition within its target lower middle market could increase.

INCOME STATEMENT

Dollars in Millions	2014				2014						
	31-Mar-15	30-Jun-15	30-Sep-15	31-Dec-15	31-Mar-16 (est.)	30-Jun-16 (est.)	30-Sep-16 (est.)	31-Dec-16 (est.)	2014	2015	2016E
Non-controlled, non-affiliated investments:											
Interest Income from portfolio investments	$4,157,559	$4,286,969	$5,133,259	$5,647,278	$5,400,000	$5,800,000	$6,000,000	$6,200,000	$9,434,752	$19,225,065	$23,400,000
Paid in kind int inc. from portfolio investments	$735,724	$1,166,440	$439,608	$786,729	$790,000	$790,000	$790,000	$790,000	$2,363,190	$3,128,501	$3,160,000
Other income from portfolio investments	$659,896	$295,386	$452,038	$412,213	$412,213	$412,213	$412,213	$412,213	$616,481.0	$1,819,533	$1,648,852
Dividend income from portfolio investments	$0	$302,874	$0	$0	$0	$0	$0	$0	$828,272	$302,874	$0
Non-controlled, affiliated investments:											
Interest income from portfolio investments	$1,219,056	$988,949	$1,001,296	$1,021,703	$900,000	$900,000	$900,000	$900,000	$3,766,650	$4,231,004	$3,600,000
Paid in kind int inc. from portfolio investments	$611,499	$631,046	$655,205	$734,531	$500,000	$500,000	$500,000	$500,000	$1,543,607	$2,632,281	$2,000,000
Other income from portfolio investments	$28,358	$20,527	$23,435	$0	$0	$0	$0	$0	$791,050	$72,320	$0
From controlled, affiliated investments:											
Interest income from portfolio investments	$575,980	$582,229	$588,627	$533,270	$525,000	$533,270	$533,270	$533,270	$2,471,678	$2,280,106	$2,124,810
Paid in kind int inc. from portfolio investments	$198,781	$206,077	$213,674	($458,810)	$0	$0	$0	$0	$1,146,404	$159,722	$0
Other income from portfolio investments	$37,800	$27,043	$0	$0	$0	$0	$0	$0	$616,481	$64,843	$0
TOTAL INVESTMENT INCOME	**$8,224,653**	**$8,507,540**	**$8,507,142**	**$8,676,914**	**$8,527,213**	**$8,935,483**	**$9,135,483**	**$9,335,483**	**$23,578,565**	**$33,916,249**	**$35,933,662**
	106%	15%	45%	30%	4%	5%	7%	8%		43.8%	5.9%
Costs and expenses:											
Management fees	$1,148,005	$1,219,963	$1,273,705	$1,302,213	$1,279,082	$1,340,322	$1,370,322	$1,400,322	$3,206,410	$4,943,886	$5,390,049
% of Sales	14%	14%	15%	15%	15%	15%	15%	15%			
Income-based incentive fee	$1,807,567	$397,028	$546,027	$521,295	$511,633	$536,129	$548,129	$560,129	$202,509	$3,271,917	$2,156,020
	22%	5%	6%	6%	6%	6%	6%	6%			
Capital gains incentive fees	$0	$434,217	($434,217)	$0	$0	$0	$0	$100,000	$763,550	$0	$100,000
Professional fees	$189,386	$170,549	$167,356	$439,380	$200,000	$439,380	$439,380	$439,380	$885,515	$966,671	$1,518,140
Valuation services	$122,905	$100,010	$89,822	$106,527	$106,527	$106,527	$106,527	$106,527	$213,705	$419,264	$426,108
Interest and credit facility expense	$605,888	$1,067,118	$1,197,553	$1,271,454	$1,271,454	$1,300,000	$1,310,000	$1,320,000	$1,137,498	$4,142,013	$5,201,454
Amortization of deferred financing costs	$183,487	$195,770	$229,716	$258,813	$260,000	$270,000	$280,000	$290,000	$256,057	$867,786	$1,100,000
Director's fees	$38,000	$76,191	$57,635	$71,900	$80,000	$82,000	$84,000	$88,000	$192,608	$243,726	$334,000
Insurance expense	$69,535	$68,006	$67,449	$67,341	$67,500	$67,500	$67,500	$67,500	$183,882	$272,331	$270,000
Organization expense	$0	$0	$0	$0	$0	$0	$0	$0	$180,953	$0	$0
Other expenses	$84,173	$129,339	$170,052	$108,389	$108,389	$108,389	$108,389	$108,389	$194,001	$491,953	$433,556
TOTAL EXPENSES	$4,248,946	$3,858,191	$3,365,098	$4,147,312	$3,884,585	$4,250,248	$4,314,248	$4,480,248	$7,416,688	$15,619,547	$16,929,327
Waiver of income-based incentive fee	$1,001,467	$0	$0	$0	$0	$0	$0	$0	$2,017,870	$1,001,467	$0
NET EXPENSES	**$3,247,479**	**$3,858,191**	**$3,365,098**	**$4,147,312**	**$3,884,585**	**$4,250,248**	**$4,314,248**	**$4,480,248**	**$5,398,818**	**$14,618,080**	**$16,929,327**
NET INVESTMENT INCOME	**$4,977,174**	**$4,649,349**	**$5,142,044**	**$4,529,602**	**$4,642,628**	**$4,685,235**	**$4,821,235**	**$4,855,235**	**$18,179,747**	**$19,298,169**	**$19,004,335**
% Change	56.7%	-25.1%	11.9%	-0.5%	-6.7%	0.8%	-6.2%	7.2%		6.2%	-1.5%
Adjusted NII/share	**$0.37**	**$0.34**	**$0.35**	**$0.34**	**$0.34**	**$0.35**	**$0.36**	**$0.36**	**$1.34**	**$1.43**	**$1.41**
Dividend per share	$0.34	$0.34	$0.34	$0.34	$0.34	$0.34	$0.34	$0.34	$0.86	$1.36	$1.36
EPS	$0.37	$0.47	$0.24	$0.27	$0.27	$0.27	$0.27	$0.27	$1.09	$1.35	$1.08
NAV/share	$14.90	$15.03	$14.92	$14.33	$14.33	$14.34	$14.36	$14.38	$14.87	$14.33	$14.38
Avg shares outstanding	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766

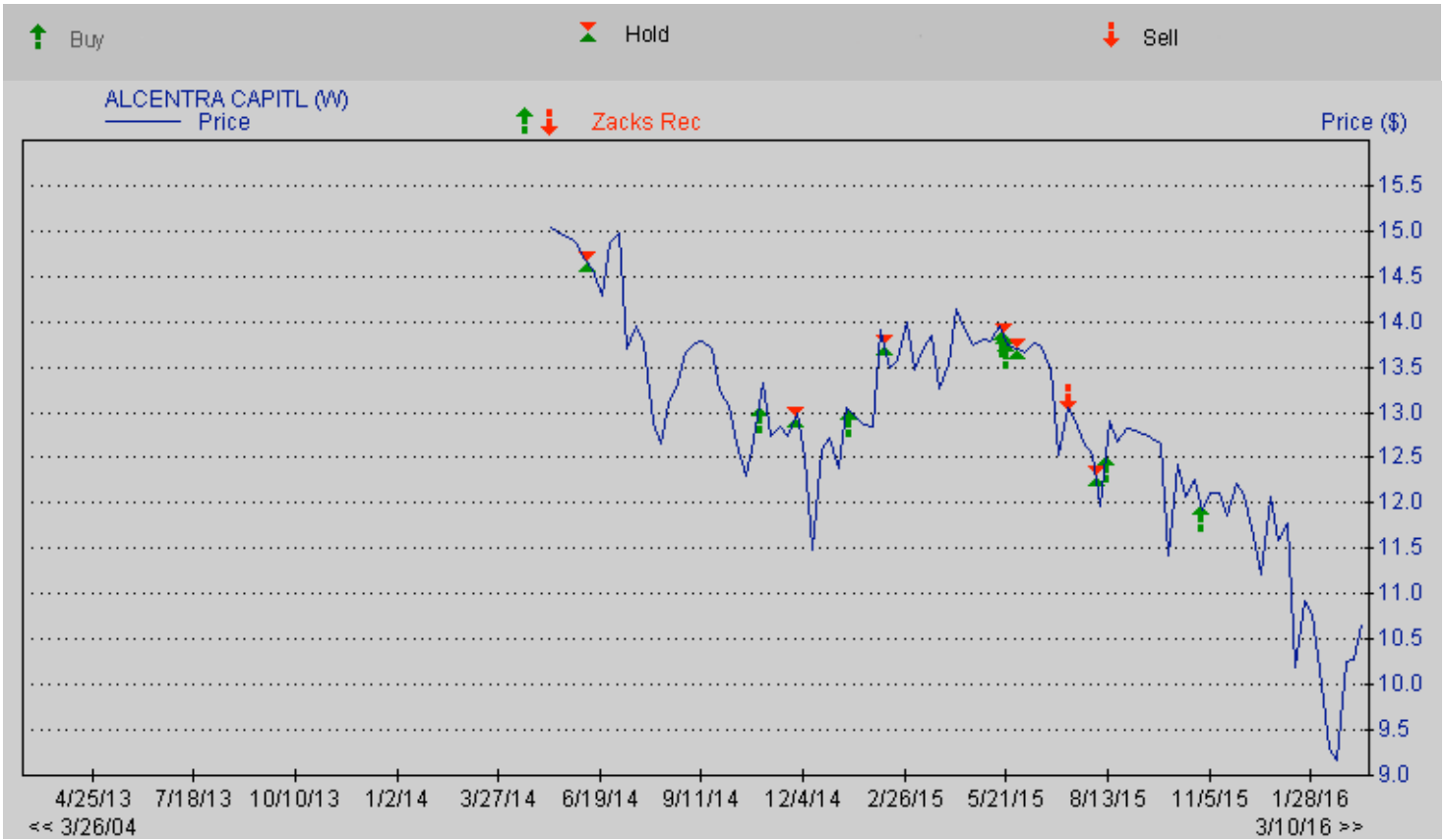
BALANCE SHEET

	Dec. 31, 2015	Sept. 30, 2015	% Change
Portfolio Investments			
Non-controlled, non-affiliated investments	$221,349,073	$194,281,248	14%
Non-controlled, affiliates investments	$59,243,999	$67,237,740	-12%
Controlled, affiliated investments	15,748,539	27,417,562	-43%
Total of portfolio investments	296,341,611	288,936,550	3%
Cash	4,866,972	11,472,602	-58%
Dividends and interest receivable	2,607,205	2,184,610	19%
Receivable for investments sold	0	0	
Deferred financing costs	2,183,881	2,187,410	0%
Deferred note offering costs	1,156,622	1,031,906	12%
Deferred tax asset	1,382,408		
Prepaid expenses and other assets	113,730	189,274	-40%
Total assets	308,652,429	306,002,352	1%
Credit facility payable	$63,504,738	$52,654,738	21%
Notes payable	40,000,000	40,000,000	0%
Payable for investments purchased	0	0	
Other accrued expenses and liabilities	271,801	362,462	-25%
Director's fee payable	37,025	36,500	1%
Professional fees payable	481,333	330,927	45%
Interest and credit facility expense payable	813,222	1,244,429	-35%
Management fee payable	1,302,213	1,273,705	2%
Incentive fee payable	1,081,797	1,749,155	-38%
Distributions payable	4,595,700	4,595,700	0%
Unearned structuring fee revenue	689,577	856,612	-19%
Income taxes payable	842,812	187,269	350%
Deferred tax liability	0	977,183	-100%
Total liabilities	113,620,218	104,268,680	9%
NET ASSETS			
Common stock	13,517	13,517	0%
Paid in capital	197,652,086	197,709,624	0%
Accumulated net realized gains	2,791,590	169,263	1549%
Undistributed net investment income	1,130,327	1,193,312	-5%
Net realized appreciation	(6,555,309)	2,647,956	-348%
Total net assets	195,032,211	201,733,672	-3%
Total liabilities and stockholders' deficit	308,652,429	306,002,352	1%
Net asset value per share	$14.43	$14.92	-3%

CASH FLOW

Cash Flows from Operating Activities	March 31, 2015	June 30, 2015	Sept 30, 2015	Dec 31, 2015	Year 2015
Net increase in net assets resulting from operations	$4,991,891	$6,413,656	$3,254,449	-$2,048,222	$12,611,774
Adjustments:					
Net realized (gain) loss from portfolio investments	(254)	146,703	(244,000)	(2,625,441)	(2,722,992)
Net change in unrealized (appreciation) depreciation of portfolio inves	(176,787)	(2,317,791)	3,228,470	10,907,312	11,641,204
Deferred tax asset	-	-	-	(1,382,408)	(1,382,408)
Deferred tax liability	159,983	221,384	(1,101,188)	2,416,825	1,697,004
Paid in-kind interest income from portfolio investments	(1,546,004)	(2,003,563)	(1,308,487)	(1,062,450)	(5,920,504)
Accretion of discount on debt securities	(208,115)	(68,843)	(73,619)	(93,980)	(444,557)
Purchases of portfolio investments	(21,982,468)	(30,559,822)	(21,239,546)	(22,819,728)	(96,601,564)
Net proceeds from sales/return of capital of portfolio investments	15,519,311	16,542,288	15,989,831	8,289,227	56,340,657
Amortization of deferred financing costs	183,487	195,770	229,716	258,813	867,786
(Increase) decrease in operating assets:					
Dividends and interest receivable	655,120	(486,845)	(935,385)	(422,595)	(1,189,705)
Receivable for investments sold	4,753	-	-	-	4,753
Due from Limited Partners	-	-	-	-	-
Deferred note offering cost	(201,899)	201,899	-	-	
Prepaid expenses and other assets	55,183	36,761	(152,830)	75,544	14,658
Increase (decrease) in operating liabilities:					
Payable for investments purchased	(8,717)	-	-	-	(8,717)
Other accrued expenses and liabilities	(359,853)	107,480	75,418	(90,661)	(267,616)
Due to affiliate	-	-	-	-	-
Directors' fees payable	(47,692)	37,250	(38,750)	525	(48,667)
Professional fees payable	(47,077)	155,710	(187,334)	150,406	71,705
Interest and credit facility expense payable	(61,783)	625,829	463,907	(431,207)	596,746
Management fee payable	532,337	71,958	53,742	28,508	686,545
Capital gains based incentive fee	-	434,217	(434,217)	-	
Income-based incentive fees payable	806,100	397,028	546,027	(667,358)	1,081,797
Unearned structuring fee revenue	(22,958)	81,378	280,853	(167,035)	172,238
Income tax	(43,582)	186,048	(469)	655,543	797,540
Net cash used in operating activities	(1,799,024)	(9,581,505)	(1,593,412)	(9,028,382)	(25,396,332)
Cash Flows from Financing Activities:					
Financing costs paid	-	(112,501)	(697,362)	(255,284)	(1,065,147)
Offering costs paid	(56,911)	(1,030,253)	(47,530)	(182,254)	(1,316,948)
Proceeds from credit facility payable	52,531,684	49,920,343	45,200,000	107,450,000	255,102,027
Repayments of credit facility payable	(58,076,348)	(68,820,095)	(30,600,000)	(96,600,000)	(254,096,443)
Proceeds from notes payable	5,936,000	34,064,000	-	-	40,000,000
Distributions paid to shareholders	(4,595,700)	(4,595,701)	(4,595,700)	(4,595,701)	(18,382,802)
Capital contributions received from partners	-	-	-	-	-
Cash distributions paid to partners	-	-	-	-	-
Net cash provided by (used in) financing activities	(4,261,275)	9,425,793	9,259,408	5,816,761	20,240,687
Increase (decrease) in cash and cash equivalents	(6,060,299)	(155,712)	7,665,996	(3,211,621)	(5,155,645)
Cash at beginning of period	10,022,617	3,962,318	3,806,606	11,472,602	10,022,617
Cash and Cash Equivalents at End of Period	3,962,318	3,806,606	11,472,602	4,866,972	4,866,972
Supplemental and non-cash financing activities:					
Cash paid during the period for interest	544,105	1,313,690	1,431,744	1,857,795	3,870,973
Accrued offering costs	5,944	(3,459)	-	2,485	2,485
Accrued distributions payable	4,595,700	-	-	4,595,700	4,595,700

HISTORICAL ZACKS RECOMMENDATIONS



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