

**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, 2013

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-33376

SARATOGA 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 No.)

**535 Madison Avenue
New York, New York**

(Address of principal executive office)

10022

(Zip Code)

(212) 906-7800

(Registrant's telephone number, including area code)

Not applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of October 15, 2013 was 4,730,116.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Saratoga Investment Corp.

Consolidated Statements of Assets and Liabilities

| | <i>As of</i> | |
|---|---------------------------------------|--------------------------|
| | <u>August 31, 2013</u> (unaudited) | <u>February 28, 2013</u> |
| ASSETS | | |
| Investments at fair value | | |
| Non-control/non-affiliate investments (amortized cost of \$167,382,770 and \$130,465,086, respectively) | \$ 168,058,055 | \$ 129,563,428 |
| Control investments (cost of \$16,804,518 and \$18,944,966 respectively) | 19,741,624 | 25,516,959 |
| Total investments at fair value (amortized cost of \$184,187,288 and \$149,410,052 respectively) | 187,799,679 | 155,080,387 |
| Cash and cash equivalents | 11,558,783 | 149,025 |
| Cash and cash equivalents, reserve accounts | 16,592,698 | 12,086,142 |
| Interest receivable, (net of reserve of \$240,693 and \$53,543, respectively) | 2,060,413 | 2,889,358 |
| Due from manager | 4,929 | — |
| Deferred debt financing costs, net | 4,250,199 | 2,090,184 |
| Management fee receivable | 198,522 | 215,853 |
| Other assets | 91,345 | 83,407 |
| Receivable from unsettled trades | 1,500,585 | 1,817,074 |
| Total assets | <u>\$ 224,057,153</u> | <u>\$ 174,411,430</u> |
| LIABILITIES | | |
| Revolving credit facility | \$ — | \$ 24,300,000 |
| SBA debentures payable | 40,000,000 | 36,000,000 |
| Notes payable | 48,300,000 | — |
| Payable for unsettled trades | 16,270,000 | — |
| Management and incentive fees payable | 5,486,746 | 4,509,322 |
| Accounts payable and accrued expenses | 501,640 | 435,038 |
| Interest and debt fees payable | 745,051 | 257,796 |
| Due to manager | 308,401 | 222,513 |
| Total liabilities | <u>\$ 111,611,838</u> | <u>\$ 65,724,669</u> |

NET ASSETS

| | | |
|--|-----------------------|-----------------------|
| Common stock, par value \$.001, 100,000,000 common shares authorized, 4,730,116 and 4,730,116 common shares issued and outstanding, respectively | \$ 4,730 | \$ 4,730 |
| Capital in excess of par value | 174,824,076 | 174,824,076 |
| Distribution in excess of net investment income | (19,781,396) | (24,522,951) |
| Accumulated net realized loss from investments and derivatives | (46,214,485) | (47,289,427) |
| Net unrealized appreciation on investments and derivatives | 3,612,390 | 5,670,333 |
| Total Net Assets | <u>112,445,315</u> | <u>108,686,761</u> |
| Total liabilities and Net Assets | <u>\$ 224,057,153</u> | <u>\$ 174,411,430</u> |
| NET ASSET VALUE PER SHARE | <u>\$ 23.77</u> | <u>\$ 22.98</u> |

See accompanying notes to consolidated financial statements.

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Saratoga Investment Corp.

Consolidated Statements of Operations

| | <u>For the three months ended August 31</u> | | <u>For the six months ended August 31</u> | |
|--|---|---------------------|---|---------------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| INVESTMENT INCOME | | | | |
| Interest from investments | | | | |
| Non-control/Non-affiliate investments | \$ 3,385,362 | \$ 2,206,947 | \$ 7,254,826 | \$ 3,945,469 |
| Payment-in-kind interest income from Non-control/Non-affiliate investments | 296,802 | 212,811 | 472,923 | 539,274 |
| Control investments | 1,109,535 | 1,094,681 | 2,235,539 | 2,140,466 |
| Total interest income | 4,791,699 | 3,514,439 | 9,963,288 | 6,625,209 |
| Interest from cash and cash equivalents | 3,959 | 1,791 | 5,865 | 4,637 |
| Management fee income | 480,750 | 500,225 | 978,841 | 1,000,065 |
| Other income | 111,300 | 146,834 | 457,476 | 152,560 |
| Total investment income | <u>5,387,708</u> | <u>4,163,289</u> | <u>11,405,470</u> | <u>7,782,471</u> |
| EXPENSES | | | | |
| Interest and debt financing expenses | 1,603,581 | 653,025 | 2,731,436 | 1,278,728 |
| Base management fees | 811,106 | 504,802 | 1,547,822 | 963,610 |
| Professional fees | 235,191 | 293,483 | 566,255 | 639,322 |
| Administrator expenses | 250,000 | 250,000 | 500,000 | 500,000 |
| Incentive management fees | (39,770) | 869,403 | 781,352 | 1,299,674 |
| Insurance | 119,234 | 130,308 | 239,229 | 260,615 |
| Directors fees and expenses | 45,000 | 51,000 | 96,000 | 102,000 |
| General & administrative | 91,425 | 97,022 | 189,786 | 148,363 |
| Other expense | 75 | — | 12,035 | 3,123 |
| Total expenses | <u>3,115,842</u> | <u>2,849,043</u> | <u>6,663,915</u> | <u>5,195,435</u> |
| NET INVESTMENT INCOME | <u>2,271,866</u> | <u>1,314,246</u> | <u>4,741,555</u> | <u>2,587,036</u> |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS: | | | | |
| Net realized gain from investments | 545,642 | 268,718 | 1,074,942 | 447,348 |
| Net realized loss from derivatives | — | — | — | (131,000) |
| Net unrealized appreciation (depreciation) on investments | (2,858,805) | 3,288,078 | (2,057,943) | 5,027,500 |
| Net unrealized appreciation on derivatives | — | — | — | 130,925 |
| Net gain (loss) on investments | <u>(2,313,163)</u> | <u>3,556,796</u> | <u>(983,001)</u> | <u>5,474,773</u> |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | <u>\$ (41,297)</u> | <u>\$ 4,871,042</u> | <u>\$ 3,758,554</u> | <u>\$ 8,061,809</u> |
| WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE | | | | |
| | \$ (0.01) | \$ 1.26 | \$ 0.79 | \$ 2.08 |
| WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED | | | | |
| | 4,730,116 | 3,876,661 | 4,730,116 | 3,876,661 |

See accompanying notes to consolidated financial statements.

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Saratoga Investment Corp.

Consolidated Schedule of Investments

August 31, 2013
(unaudited)

| Company (a) | Industry | Investment Interest Rate / Maturity | Principal/ Number of Shares | Cost | Fair Value (c) | % of Net Assets |
|--|-------------------|---|--|--------------|-----------------------|----------------------------|
| Non-control/Non-affiliated investments - 149.4% (b) | | | | | | |
| Coast Plating, Inc. (d) | Aerospace | First Lien Term Loan 11.70% Cash, 9/13/2014 | \$ 2,401,310 | \$ 2,401,310 | \$ 2,401,310 | 2.1% |
| Coast Plating, Inc. (d) | Aerospace | First Lien Term Loan 12.45% Cash, 9/13/2014 | \$ 894,606 | 894,606 | 894,606 | 0.8% |
| Total Aerospace | | | | 3,295,916 | 3,295,916 | 2.9% |
| National Truck Protection Co., Inc. (d), (g) | Automotive | Common Stock | 589 | 500,000 | 826,041 | 0.7% |
| National Truck Protection Co., Inc. (d) | Automotive | First Lien Term Loan 15.50% (13.50% Cash/2.00% PIK), 8/10/2017 | \$ 5,471,119 | 5,471,119 | 5,471,119 | 4.9% |
| Take 5 Oil Change, L.L.C. (d), (g) | Automotive | Common Stock | 6,415 | 712,800 | 923,076 | 0.8% |
| Total Automotive | | | | 6,683,919 | 7,220,236 | 6.4% |
| Legacy Cabinets Holdings (d), (g) | Building Products | Common Stock Voting A-1 | 2,535 | 220,900 | 136,890 | 0.1% |
| Legacy Cabinets Holdings (d), (g) | Building Products | Common Stock Voting B-1 | 1,600 | 139,424 | 86,400 | 0.1% |
| Legacy Cabinets, Inc. (d) | Building Products | First Lien Term Loan 7.25% (1.00% Cash/6.25% PIK), 5/3/2014 | \$ 274,603 | 274,603 | 246,264 | 0.2% |
| Total Building Products | | | | 634,927 | 469,554 | 0.4% |
| BMC Software, Inc. (d) | Business Services | First Lien Term Loan 5.00% Cash, 9/10/2020 | \$ 6,000,000 | 5,940,000 | 5,988,000 | 5.3% |
| Dispensing Dynamics International (d) | Business Services | Senior Secured Note 12.50% Cash, 1/1/2018 | \$ 7,000,000 | 6,871,015 | 7,070,000 | 6.3% |
| Easy Ice, LLC (d) | Business Services | First Lien Term Loan 14.00% (11.00% Cash 3.00% PIK), 3/29/2018 | \$ 7,394,783 | 7,261,256 | 7,394,783 | 6.6% |
| Emily Street Enterprises, L.L.C. (d) | Business Services | Senior Secured Note 14.00% (13.00% Cash/1.00% PIK), 12/28/2017 | \$ 5,739,067 | 5,640,488 | 5,739,067 | 5.1% |
| Emily Street Enterprises, L.L.C. (d), (g) | Business Services | Warrant Membership Interests | 49,318 | 400,000 | 458,657 | 0.4% |
| Help/Systems Holdings, Inc.(Help/Systems, LLC) (d) | Business Services | First Lien Term Loan 5.50% Cash, 6/28/2019 | \$ 4,000,000 | 3,960,973 | 3,970,000 | 3.5% |
| Help/Systems Holdings, Inc.(Help/Systems, LLC) (d) | Business Services | Second Lien Term Loan 9.50% Cash, 6/28/2020 | \$ 2,000,000 | 1,970,625 | 2,000,000 | 1.8% |
| Knowland Technology Holdings, L.L.C. (d) | Business Services | First Lien Term Loan 11.00% Cash, 11/29/2017 | \$ 6,200,000 | 6,094,743 | 6,200,000 | 5.5% |
| Trinet HR Corporation (SOI Holdings, Inc.) (d) | Business Services | First Lien Term Loan 5.00% Cash, 8/20/2020 | \$ 5,000,000 | 4,950,176 | 4,950,000 | 4.4% |
| Trinet HR Corporation (SOI Holdings, Inc.) (d) | Business Services | Second Lien Term Loan 8.75% Cash, 2/20/2021 | \$ 2,500,000 | 2,450,000 | 2,450,000 | 2.2% |
| Vector Controls Holding Co., LLC (d) | Business Services | First Lien Term Loan, 14.00% (12.00% Cash, 2.00% PIK), 3/6/2018 | \$ 9,619,580 | 9,447,755 | 9,619,580 | 8.6% |
| Vector Controls Holding Co., LLC (d), (g) | Business Services | Warrants to Purchase Limited Liability Company Interests | 79 | — | — | 0.0% |
| Total Business Services | | | | 54,987,031 | 55,840,087 | 49.7% |
| Targus Group International, Inc. (d) | Consumer Products | First Lien Term Loan 11.00% Cash, 5/24/2016 | \$ 3,815,100 | 3,772,976 | 3,834,175 | 3.5% |
| Targus Holdings, Inc. (d) | Consumer Products | Unsecured Note 10.00% PIK, 6/14/2019 | \$ 1,914,341 | 1,914,341 | 1,386,303 | 1.2% |
| Targus Holdings, Inc. (d) | Consumer Products | Unsecured Note 16.00% Cash, 10/26/2018 | \$ 358,682 | 353,039 | 346,129 | 0.3% |
| Targus Holdings, Inc. (d), (g) | Consumer Products | Common Stock | 62,413 | 566,765 | 2,390,418 | 2.1% |
| Total Consumer Products | | | | 6,607,121 | 7,957,025 | 7.1% |
| CFE Acquisition L.L.C. (d) | Consumer Services | First Lien Term Loan 7.50% Cash, 7/31/2015 | \$ 1,702,391 | 1,621,776 | 1,698,816 | 1.5% |
| Expedited Travel L.L.C. (d) | Consumer Services | First Lien Term Loan 12.00% Cash, 12/28/2017 | \$ 4,705,000 | 4,613,457 | 4,705,000 | 4.2% |
| PrePaid Legal Services, Inc. (d) | Consumer Services | First Lien Term Loan 11.00% Cash, 12/31/2016 | \$ 4,838,710 | 4,791,498 | 4,838,710 | 4.3% |
| PrePaid Legal Services, Inc. (d) | Consumer Services | Second Lien Term Loan 9.75% Cash, 7/1/2020 | \$ 5,000,000 | 4,926,560 | 5,000,000 | 4.4% |
| Total Consumer Services | | | | 15,953,291 | 16,242,526 | 14.4% |
| M/C Acquisition Corp., L.L.C. (d) | Education | First Lien Term Loan 1.00% Cash, 6/28/2013 | \$ 2,740,780 | 1,416,994 | 390,960 | 0.3% |
| M/C Acquisition Corp., L.L.C. (d), (g) | Education | Class A Common Stock | 544,761 | 30,242 | — | 0.0% |

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| | | | | | | |
|---|-------------------------------|--|---------------|-----------------------|-----------------------|---------------|
| Group Dekko, Inc. (d) | Electronics | Second Lien Term Loan 11.00% (10.00% Cash/1.00% PIK), 5/1/2016 | \$ 6,865,996 | 6,865,996 | 6,831,666 | 6.1% |
| Total Electronics | | | | 6,865,996 | 6,831,666 | 6.1% |
| USS Parent Holding Corp. (d), (g) | Environmental | Non Voting Common Stock | 765 | 133,002 | 176,914 | 0.2% |
| USS Parent Holding Corp. (d), (g) | Environmental | Voting Common Stock | 17,396 | 3,025,798 | 4,022,999 | 3.5% |
| Total Environmental | | | | 3,158,800 | 4,199,913 | 3.7% |
| DS Waters of America, Inc. (d) | Food and Beverage | First Lien Term Loan 5.25% Cash, 8/30/2020 | \$ 2,500,000 | 2,475,000 | 2,497,000 | 0.2% |
| HOA Restaurant Group, L.L.C. (d) | Food and Beverage | Senior Secured Note 11.25% Cash, 4/1/2017 | \$ 4,000,000 | 3,907,889 | 4,060,000 | 3.5% |
| TB Corp. (d) | Food and Beverage | First Lien Term Loan 5.81% Cash, 6/19/2018 | \$ 5,127,738 | 5,105,368 | 5,090,306 | 3.5% |
| TB Corp. (d) | Food and Beverage | Unsecured Note 13.50% (12.00% Cash/1.50% PIK), 12/20/2018 | \$ 2,523,533 | 2,490,413 | 2,523,533 | 0.2% |
| TM Restaurant Group L.L.C. (d) | Food and Beverage | First Lien Term Loan 7.75% Cash, 7/16/2017 | \$ 2,883,190 | 2,866,436 | 2,877,712 | 3.5% |
| Total Food and Beverage | | | | 16,845,106 | 17,048,551 | 15.2% |
| Oceans Acquisition, Inc. (d) | Healthcare Services | First Lien Term Loan 9.03% Cash, 12/27/2017 | \$ 6,500,000 | 6,384,688 | 6,500,000 | 5.9% |
| Smile Brands Group Inc. (d) | Healthcare Services | First Lien Term Loan 7.50% Cash, 8/16/2019 | \$ 4,500,000 | 4,410,124 | 4,430,250 | 3.9% |
| Surgical Specialties Corporation (US), Inc. (d) | Healthcare Services | First Lien Term Loan 7.25% Cash, 8/22/2018 | \$ 2,500,000 | 2,475,041 | 2,493,750 | 2.2% |
| Zest Holdings, LLC (d) | Healthcare Services | First Lien Term Loan 6.50% Cash, 8/16/2020 | \$ 4,500,000 | 4,410,000 | 4,432,500 | 3.9% |
| Total Healthcare Services | | | | 17,679,853 | 17,856,500 | 15.9% |
| McMillin Companies L.L.C. (d), (g) | Homebuilding | Senior Secured Note 0% Cash, 12/31/2013 | \$ 550,000 | 549,733 | 376,090 | 0.3% |
| Total Homebuilding | | | | 549,733 | 376,090 | 0.3% |
| Keystone Automotive Operations, Inc. (d) | Logistics | First Lien Term Loan 7.00% Cash, 8/15/2019 | \$ 5,000,000 | 4,925,343 | 5,000,000 | 4.4% |
| Total Logistics | | | | 4,925,343 | 5,000,000 | 4.4% |
| Distribution International, Inc. (d) | Manufacturing | First Lien Term Loan 8.75% Cash, 7/16/2019 | \$ 6,000,000 | 5,940,828 | 5,970,000 | 5.3% |
| Total Logistics | | | | 5,940,828 | 5,970,000 | 5.3% |
| Elyria Foundry Company, L.L.C. (d) | Metals | Senior Secured Note 17.00% (13.00% Cash/4.00% PIK), 9/14/2014 | \$ 8,859,614 | 8,859,614 | 7,147,051 | 6.4% |
| Elyria Foundry Company, L.L.C. (d), (g) | Metals | Warrants to Purchase Limited Liability Company Interests (2008) | 5,000 | 20 | — | 0.0% |
| Elyria Foundry Company, L.L.C. (d), (g) | Metals | Warrants to Purchase Limited Liability Company Interests (2013) | 18,227 | — | — | 0.0% |
| Total Metals | | | | 8,859,634 | 7,147,051 | 6.4% |
| Network Communications, Inc. (d) | Publishing | Unsecured Notes 8.60% PIK, 1/14/2020 | \$ 2,553,340 | 2,127,768 | 1,177,040 | 1.0% |
| Network Communications, Inc. (d), (g) | Publishing | Common Stock | 211,429 | — | — | 0.0% |
| Penton Media, Inc. (d) | Publishing | First Lien Term Loan 6.00% Cash, 8/1/2014 | \$ 4,861,303 | 4,635,522 | 4,771,854 | 4.3% |
| Total Publishing | | | | 6,763,290 | 5,948,894 | 5.3% |
| Community Investors, Inc. (d) | Software | First Lien Term Loan 9.75% Cash, 5/9/2018 | \$ 6,150,000 | 6,034,746 | 6,075,585 | 5.4% |
| Community Investors, Inc. (d) | Software | Revolver | \$ 166,667 | — | — | 0.0% |
| Community Investors, Inc. (d), (g) | Software | Common Stock | 1,282 | 1,282 | 1,603 | 0.0% |
| Community Investors, Inc. (d), (g) | Software | Preferred Stock | 148,718 | 148,718 | 185,898 | 0.2% |
| Total Software | | | | 6,184,746 | 6,263,086 | 5.6% |
| Sub Total Non-control/Non-affiliated investments | | | | 167,382,770 | 168,058,055 | 149.4% |
| Control investments - 17.6% (b) | | | | | | |
| GSC Investment Corp. CLO 2007 LTD. (d), (e), (f) | Structured Finance Securities | Other/Structured Finance Securities 17.90%, 1/21/2020 | \$ 30,000,000 | 16,804,518 | 19,741,624 | 17.6% |
| Sub Total Control investments | | | | 16,804,518 | 19,741,624 | 17.6% |
| TOTAL INVESTMENTS - 167.0% (b) | | | | \$ 184,187,288 | \$ 187,799,679 | 167.0% |

- (a) All of our equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except GSC Investment Corp. CLO 2007 Ltd.
(b) Percentages are based on net assets of \$112,445,315 as of August 31, 2013.
(c) Because there is no readily available market value for these investments, the fair value of these investments is approved in good faith by our board of directors. (see Note 3 to the consolidated financial statements).
(d) These securities are pledged as collateral under a senior secured revolving credit facility (see Note 6 to the consolidated financial statements).
(e) 17.90% represents the modeled effective interest rate that is expected to be earned over the life of the investment.
(f) As defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

| Company | Purchases | Redemptions | Sales (cost) | Interest Income | Management fee income | Net Realized gains/(losses) | Net Unrealized gains/(losses) |
|------------------------------------|-----------|-------------|--------------|-----------------|-----------------------|-----------------------------|-------------------------------|
| GSC Investment Corp. CLO 2007 LTD. | \$ — | \$ — | \$ — | \$ 2,235,539 | \$ 978,841 | \$ — | \$ 2,937,106 |

(g) Non-income producing at August 31, 2013.

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Saratoga Investment Corp.
Consolidated Schedule of Investments
February 28, 2013

| Company (a) | Industry | Investment Interest Rate / Maturity | Principal/ Number of Shares | Cost | Fair Value (c) | % of Net Assets |
|--|-------------------|--|-----------------------------|--------------|----------------|-----------------|
| Non-control/Non-affiliated investments - 119.2% (b) | | | | | | |
| Coast Plating, Inc. (d) | Aerospace | First Lien Term Loan 11.70% Cash, 9/13/2014 | \$ 2,550,000 | \$ 2,550,000 | \$ 2,550,000 | 2.3% |
| Coast Plating, Inc. (d) | Aerospace | First Lien Term Loan 13.20% Cash, 9/13/2014 | \$ 950,000 | 950,000 | 950,000 | 0.9% |
| Total Aerospace | | | | 3,500,000 | 3,500,000 | 3.2% |
| National Truck Protection Co., Inc. (d), (h) | Automotive | Common Stock | 589 | 500,000 | 591,827 | 0.5% |
| National Truck Protection Co., Inc. (d) | Automotive | First Lien Term Loan 15.50% Cash 8/10/2017 | \$ 5,500,000 | 5,500,000 | 5,500,000 | 5.1% |
| Take 5 Oil Change, L.L.C. (d) | Automotive | First Lien Term Loan 9.00% Cash, 11/28/2016 | \$ 6,000,000 | 6,000,000 | 6,000,000 | 5.5% |
| Take 5 Oil Change, L.L.C. (d) | Automotive | First Lien Term Loan 13.00% Cash, 11/28/2016 | \$ 2,000,000 | 1,961,761 | 2,000,000 | 1.8% |
| Take 5 Oil Change, L.L.C. (d), (h) | Automotive | Common Stock | 7,128 | 712,800 | 712,800 | 0.7% |
| Total Automotive | | | | 14,674,561 | 14,804,627 | 13.6% |
| Legacy Cabinets Holdings (d), (h) | Building Products | Common Stock Voting A-1 | 2,535 | 220,900 | — | 0.0% |
| Legacy Cabinets Holdings (d), (h) | Building Products | Common Stock Voting B-1 | 1,600 | 139,424 | — | 0.0% |
| Legacy Cabinets, Inc. (d) | Building Products | First Lien Term Loan 7.25% (1.00% Cash/6.25% PIK), 5/3/2014 | \$ 332,229 | 332,229 | 267,378 | 0.2% |
| Total Building Products | | | | 692,553 | 267,378 | 0.2% |
| Emily Street Enterprises, L.L.C. (d) | Business Services | Senior Secured Note 14.00% (13.00% Cash/1.00% PIK), 12/28/2017 | \$ 5,705,384 | 5,595,317 | 5,705,384 | 5.2% |
| Emily Street Enterprises, L.L.C. (d), (h) | Business Services | Warrant Membership Interests | 49,318 | 400,000 | 399,969 | 0.4% |
| Dispensing Dynamics International (d) | Business Services | Senior Secured Note 12.50% Cash, 1/1/2018 | \$ 7,000,000 | 6,860,186 | 7,000,000 | 6.4% |
| Knowland Technology Holdings, L.L.C. (d) | Business Services | First Lien Term Loan 11.00% Cash, 11/29/2017 | \$ 6,200,000 | 6,082,248 | 6,200,000 | 5.7% |
| Sourcehov LLC (d) | Business Services | Second Lien Term Loan 10.50% Cash, 4/29/2018 | \$ 3,000,000 | 2,648,298 | 2,850,000 | 2.6% |
| Total Business Services | | | | 21,586,049 | 22,155,353 | 20.3% |
| C.H.I. Overhead Doors, Inc. (d) | Consumer Products | First Lien Term Loan 7.25% Cash, 8/17/2017 | \$ 4,974,747 | 4,930,481 | 5,024,495 | 4.7% |
| Targus Group International, Inc. (d) | Consumer Products | First Lien Term Loan 11.00% Cash, 5/24/2016 | \$ 3,940,003 | 3,888,460 | 3,956,551 | 3.6% |
| Targus Holdings, Inc. (d) | Consumer Products | Unsecured Note 10.00% PIK, 6/14/2019 | \$ 1,914,341 | 1,914,341 | 1,116,252 | 1.0% |
| Targus Holdings, Inc. (d) | Consumer Products | Unsecured Note 16.00% Cash, 10/26/2018 | \$ 332,500 | 326,320 | 305,334 | 0.3% |
| Targus Holdings, Inc. (d), (h) | Consumer Products | Common Stock | 62,413 | 566,765 | 3,324,741 | 3.1% |
| Total Consumer Products | | | | 11,626,367 | 13,727,373 | 12.7% |
| CFF Acquisition L.L.C. (d) | Consumer Services | First Lien Term Loan 7.50% Cash, 7/31/2015 | \$ 2,161,391 | 2,032,060 | 2,154,475 | 2.0% |
| Expedited Travel L.L.C. (d) | Consumer Services | First Lien Term Loan 12.00% Cash, 12/28/2017 | \$ 5,500,000 | 5,380,520 | 5,500,000 | 5.0% |
| PrePaid Legal Services, Inc. (d) | Consumer Services | First Lien Term Loan 11.00% Cash, 12/31/2016 | \$ 3,000,000 | 2,936,860 | 3,000,000 | 2.8% |
| Total Consumer Services | | | | 10,349,440 | 10,654,475 | 9.8% |

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| Company (a) | Industry | Investment Interest Rate / Maturity | Principal/ Number of Shares | Cost | Fair Value (c) | % of Net Assets |
|--|---------------------|--|-----------------------------|------------|----------------|-----------------|
| M/C Acquisition Corp., L.L.C. (d) | Education | First Lien Term Loan 1.00% Cash, 12/31/2012 | \$ 2,740,780 | 1,586,846 | 291,893 | 0.3% |
| M/C Acquisition Corp., L.L.C. (d), (h) | Education | Class A Common Stock | 544,761 | 30,242 | — | 0.0% |
| Total Education | | | | 1,617,088 | 291,893 | 0.3% |
| Group Dekko, Inc. (d) | Electronics | Second Lien Term Loan 11.00% (10.00% Cash/1.00% PIK), 5/1/2016 | \$ 6,824,717 | 6,824,717 | 6,720,981 | 6.2% |
| Total Electronics | | | | 6,824,717 | 6,720,981 | 6.2% |
| USS Parent Holding Corp. (d), (h) | Environmental | Non Voting Common Stock | 765 | 133,002 | 125,981 | 0.1% |
| USS Parent Holding Corp. (d), (h) | Environmental | Voting Common Stock | 17,396 | 3,025,798 | 2,866,065 | 2.7% |
| Total Environmental | | | | 3,158,800 | 2,992,046 | 2.8% |
| DS Waters of America, Inc. (d) | Food and Beverage | First Lien Term Loan 10.50% Cash, 8/29/2017 | \$ 3,970,000 | 3,994,704 | 4,049,400 | 3.7% |
| HOA Restaurant Group, L.L.C. (d) | Food and Beverage | Senior Secured Note 11.25% Cash, 4/1/2017 | \$ 4,000,000 | 3,897,940 | 3,560,000 | 3.3% |
| TB Corp. (d) | Food and Beverage | First Lien Term Loan 5.81% Cash, 6/19/2018 | \$ 5,153,506 | 5,128,662 | 5,140,622 | 4.7% |
| TB Corp. (d) | Food and Beverage | Unsecured Note 13.50% (12.00% Cash/1.50% PIK), 2/19/2017 | \$ 2,504,585 | 2,468,317 | 2,492,062 | 2.3% |
| TM Restaurant Group L.L.C. (d) | Food and Beverage | First Lien Term Loan 7.75% Cash, 7/17/2017 | \$ 2,962,500 | 2,943,045 | 2,956,871 | 2.7% |
| Total Food and Beverage | | | | 18,432,668 | 18,198,955 | 16.7% |
| Oceans Acquisition, Inc. (d) | Healthcare Services | First Lien Term Loan 10.75% Cash, 12/27/2017 | \$ 7,500,000 | 7,351,433 | 7,500,000 | 6.9% |
| Maverick Healthcare Group (d) | Healthcare Services | First Lien Term Loan 10.75% Cash, 12/31/2016 | \$ 4,900,000 | 4,835,389 | 4,900,000 | 4.5% |
| Total Healthcare Services | | | | 12,186,822 | 12,400,000 | 11.4% |
| McMillin Companies L.L.C. (d), (h) | Homebuilding | Senior Secured Note 0% Cash, 12/31/2013 | \$ 550,000 | 536,764 | 315,370 | 0.3% |
| Total Homebuilding | | | | 536,764 | 315,370 | 0.3% |
| Capstone Logistics, L.L.C. (d) | Logistics | First Lien Term Loan 7.50% Cash, 9/16/2016 | \$ 899,769 | 889,798 | 908,766 | 0.8% |

| | | | | | | | |
|--|------------|--|----|-----------|-------------------|-------------------|--------------|
| Capstone Logistics, L.L.C. (d) | Logistics | First Lien Term Loan 13.50% Cash, 9/16/2016 | \$ | 3,693,369 | 3,652,443 | 3,767,236 | 3.5% |
| Worldwide Express Operations, L.L.C. (d) | Logistics | First Lien Term Loan 7.50% Cash, 6/30/2013 | \$ | 6,527,979 | 6,461,295 | 6,504,478 | 6.0% |
| Total Logistics | | | | | <u>11,003,536</u> | <u>11,180,480</u> | <u>10.3%</u> |
| Elyria Foundry Company, L.L.C. (d) | Metals | Senior Secured Note 17.00% (13.00% Cash/4.00% PIK), 3/1/2013 | \$ | 7,728,566 | 7,728,566 | 6,723,852 | 6.2% |
| Elyria Foundry Company, L.L.C. (d), (h) | Metals | Warrants to Purchase Limited Liability Company Interests | | 3,000 | — | — | 0.0% |
| Total Metals | | | | | <u>7,728,566</u> | <u>6,723,852</u> | <u>6.2%</u> |
| Network Communications, Inc. (d) | Publishing | Unsecured Note 8.60% PIK, 1/14/2020 | \$ | 2,500,198 | 2,049,660 | 960,827 | 0.9% |
| Network Communications, Inc. (d), (h) | Publishing | Common Stock | | 211,429 | — | — | 0.0% |
| Penton Media, Inc. (d) | Publishing | First Lien Term Loan 6.00% (4.00% Cash/2.00% PIK), 8/1/2014 | \$ | 4,839,189 | 4,497,495 | 4,669,818 | 4.3% |
| Total Publishing | | | | | <u>6,547,155</u> | <u>5,630,645</u> | <u>5.2%</u> |

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| Company (a) | Industry | Investment Interest Rate / Maturity | Principal/ Number of Shares | Cost | Fair Value (c) | % of Net Assets |
|---|-------------------------------|---|--------------------------------|-----------------------|-----------------------|--------------------|
| Sub Total Non-control/Non-affiliated investments | | | | <u>130,465,086</u> | <u>129,563,428</u> | <u>119.2%</u> |
| Control investments - 23.5% | | | | | | |
| (b) | | | | | | |
| GSC Partners CDO GP III, LP (g), (h) | Financial Services | 100% General Partnership Interest | — | — | — | 0.0% |
| GSC Investment Corp. CLO 2007 LTD. (d), (e), (g) | Structured Finance Securities | Other/Structured Finance Securities 23.06%, 1/21/2020 | \$ 30,000,000 | 18,944,966 | 25,516,959 | 23.5% |
| Sub Total Control investments | | | | <u>18,944,966</u> | <u>25,516,959</u> | <u>23.5%</u> |
| Affiliate investments - 0.0% | | | | | | |
| (b) | | | | | | |
| GSC Partners CDO GP III, LP (f), (h) | Financial Services | 6.24% Limited Partnership Interest | — | — | — | 0.0% |
| Sub Total Affiliate investments | | | | <u>—</u> | <u>—</u> | <u>0.0%</u> |
| TOTAL INVESTMENTS - 142.7% (b) | | | | <u>\$ 149,410,052</u> | <u>\$ 155,080,387</u> | <u>142.7%</u> |

- (a) All of our equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except GSC Investment Corp. CLO 2007 Ltd. and GSC Partners CDO GP III, LP.
- (b) Percentages are based on net assets of \$108,686,761 as of February 28, 2013.
- (c) Because there is no readily available market value for these investments, the fair value of these investments is approved in good faith by our board of directors. (see Note 3 to the consolidated financial statements).
- (d) These securities are pledged as collateral under a senior secured revolving credit facility (see Note 6 to the consolidated financial statements).
- (e) 23.06% represents the modeled effective interest rate that is expected to be earned over the life of the investment.
- (f) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was an Affiliate are as follows:

| Company | Purchases | Redemptions | Sales (cost) | Interest Income | Management fee income | Net Realized gains/(losses) | Net Unrealized gains/(losses) |
|-----------------------------|-----------|-------------|--------------|-----------------|-----------------------|-----------------------------|-------------------------------|
| GSC Partners CDO GP III, LP | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |

- (g) As defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

| Company | Purchases | Redemptions | Sales (cost) | Interest Income | Management fee income | Net Realized gains/(losses) | Net Unrealized gains/(losses) |
|------------------------------------|-----------|-------------|--------------|-----------------|-----------------------|-----------------------------|-------------------------------|
| GSC Investment Corp. CLO 2007 LTD. | \$ — | \$ — | \$ — | \$ 4,205,509 | \$ 2,000,072 | \$ — | \$ 6,571,992 |
| GSC Partners CDO GP III, LP | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |

- (h) Non-income producing at February 28, 2013.

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Saratoga Investment Corp.

Consolidated Statements of Changes in Net Assets

| | For the six months ended August 31, 2013 (unaudited) | For the six months ended August 31, 2012 (unaudited) |
|---|--|--|
| INCREASE FROM OPERATIONS: | | |
| Net investment income | \$ 4,741,555 | \$ 2,587,036 |
| Net realized gain from investments | 1,074,942 | 447,348 |
| Net realized loss from derivatives | — | (131,000) |
| Net unrealized appreciation (depreciation) on investments | (2,057,943) | 5,027,500 |
| Net unrealized appreciation on derivatives | — | 130,925 |
| Net increase in net assets from operations | <u>3,758,554</u> | <u>8,061,809</u> |
| Total increase in net assets | 3,758,554 | 8,061,809 |
| Net assets at beginning of period | 108,686,761 | 97,380,150 |
| Net assets at end of period | <u>\$ 112,445,315</u> | <u>\$ 105,441,959</u> |
| Net asset value per common share | \$ 23.77 | \$ 27.20 |
| Common shares outstanding at end of period | 4,730,116 | 3,876,661 |

See accompanying notes to consolidated financial statements.

[Table of Contents](#)**Saratoga Investment Corp.****Consolidated Statements of Cash Flows**

| | <u>For the six months ended</u> <u>August 31, 2013</u> <u>(unaudited)</u> | <u>For the six months ended</u> <u>August 31, 2012</u> <u>(unaudited)</u> |
|---|---|---|
| Operating activities | | |
| NET INCREASE IN NET ASSETS FROM OPERATIONS | \$ 3,758,554 | \$ 8,061,809 |
| ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS FROM OPERATIONS TO NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES: | | |
| Paid-in-kind interest income | (472,923) | (539,274) |
| Net accretion of discount on investments | (224,598) | (481,812) |
| Amortization of deferred debt financing costs | 419,294 | 212,481 |
| Net realized gain from investments | (1,074,942) | (447,348) |
| Net realized loss from derivatives | — | 131,000 |
| Net unrealized (appreciation) depreciation on investments | 2,057,943 | (5,027,500) |
| Net unrealized appreciation on derivatives | — | (130,925) |
| Proceeds from sale and redemption of investments | 54,849,577 | 14,466,944 |
| Purchase of investments | (87,854,349) | (28,269,050) |
| (Increase) decrease in operating assets: | | |
| Cash and cash equivalents, reserve accounts | (4,506,556) | 19,796,323 |
| Interest receivable | 828,945 | (363,407) |
| Due from manager | (4,929) | — |
| Management fee receivable | 17,331 | (336) |
| Other assets | (7,938) | 35,727 |
| Receivable from unsettled trades | 316,489 | 59,511 |
| Increase (decrease) in operating liabilities: | | |
| Payable for unsettled trades | 16,270,000 | (4,072,500) |
| Management and incentive fees payable | 977,424 | 1,165,713 |
| Accounts payable and accrued expenses | 66,602 | 369,227 |
| Interest and debt fees payable | 487,255 | 133,668 |
| Due to manager | 85,888 | (101,892) |
| NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES | <u>(14,010,933)</u> | <u>4,998,359</u> |
| Financing activities | | |
| Borrowings on debt | 4,000,000 | 3,350,000 |
| Paydowns on debt | (24,300,000) | (8,500,000) |
| Issuance of notes | 48,300,000 | — |
| Debt financing cost | (2,579,309) | (500,000) |
| NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES | <u>25,420,691</u> | <u>(5,650,000)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 11,409,758 | (651,641) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 149,025 | 1,325,698 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 11,558,783</u> | <u>\$ 674,057</u> |
| Supplemental Information: | | |
| Interest paid during the period | \$ 1,824,887 | \$ 932,579 |
| Supplemental non-cash information: | | |
| Paid-in-kind interest income | \$ 472,923 | \$ 539,274 |
| Net accretion of discount on investments | \$ 224,598 | \$ 481,812 |
| Amortization of deferred debt financing costs | \$ 419,294 | \$ 212,481 |

See accompanying notes to consolidated financial statements.

[Table of Contents](#)**SARATOGA INVESTMENT CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013

Note 1. Organization and Basis of Presentation

Saratoga Investment Corp. (the “Company”, “we”, “our” 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 as GSC Investment Corp. and completed our initial public offering (“IPO”) on March 28, 2007. We have elected to be treated as a regulated investment company (“RIC”) under subchapter M of the Internal Revenue Code (the “Code”). We expect to continue to qualify and to elect to be treated for tax purposes as a RIC. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments.

GSC Investment, LLC (the “LLC”) was organized in May 2006 as a Maryland limited liability company. As of February 28, 2007, the LLC had not yet commenced its operations and investment activities.

On March 21, 2007, the Company was incorporated and concurrently therewith the LLC was merged with and into the Company, with the Company as the surviving entity, in accordance with the procedure for such merger in the LLC’s limited liability company agreement and Maryland law. In connection with such merger, each outstanding limited liability company interest of the LLC was converted into a share of common stock of the Company.

On July 30, 2010, the Company changed its name from “GSC Investment Corp.” to “Saratoga Investment Corp.” in conjunction with the transaction described in “Note 12. Recapitalization Transaction” below.

We are externally managed and advised by our investment adviser, Saratoga Investment Advisors, LLC (the “Manager”), pursuant to an investment advisory and management agreement. Prior to July 30, 2010, we were managed and advised by GSCP (NJ), L.P.

On March 28, 2012, our wholly-owned subsidiary, Saratoga Investment Corp. SBIC, LP (“SBIC LP”), received a Small Business Investment Company (“SBIC”) license from the Small Business Administration (“SBA”).

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of the Company, its special purpose financing subsidiary, Saratoga Investment Funding, LLC (previously known as GSC Investment Funding LLC), and SBIC LP. All intercompany accounts and transactions have been eliminated in consolidation. All references made to the “Company,” “we,” and “us” herein include Saratoga Investment Corp. and its consolidated subsidiaries, except as stated otherwise.

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 GAAP 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 income, gains (losses) and expenses during the period reported. Actual results could differ materially 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. Per section 12(d)(1)(A) of the 1940 Act, the Company may not invest in another registered investment company, such as a money market fund, if such investment would cause the Company to exceed any of the following limitations:

- we were to own more than 3.0% of the total outstanding voting stock of the money market fund;

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- we were to hold securities in the money market fund having an aggregate value in excess of 5.0% of the value of our total assets; or
- we were to hold securities in money market funds and other registered investment companies and BDCs having an aggregate value in excess of 10.0% of the value of our total assets.

Cash and Cash Equivalents, Reserve Accounts

Cash and cash equivalents, reserve accounts include amounts held in designated bank accounts in the form of cash and short-term liquid investments in money market funds representing payments received on secured investments or other reserved amounts associated with our \$45.0 million senior secured revolving credit facility with Madison Capital Funding LLC. The Company is required to use these amounts to pay interest expense, reduce borrowings, or pay other amounts in accordance with the terms of the senior secured revolving credit facility.

Investment 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 which we own more than 25.0% of the voting securities or maintain greater than 50.0% of the board representation. Under the 1940 Act, “Affiliated Investments” are defined as those non-control investments in companies in which we own between 5.0% and 25.0% of the voting securities. Under the 1940 Act, “Non-affiliated Investments” are defined as investments that are neither Control Investments nor Affiliated Investments.

Investment Valuation

The Company accounts for its investments at fair value in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures* (“ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC 820 requires the Company to assume that its investments are to be sold at the statement of assets and liabilities date in the principal market to independent market participants, or in the absence of a principal market, in the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact.

Investments for which market quotations are readily available are fair valued at such market quotations obtained from independent third party pricing services and market makers subject to any decision by our board of directors to approve 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 approved, in good faith, by our board of directors based on input from our Manager, the audit committee of our board of directors and 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 determining the fair value of our investments include the nature and realizable value of any collateral, the portfolio company’s ability to make payments, market yield trend analysis, 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 of our Manager and preliminary valuation conclusions are documented and discussed with the senior management of our Manager; and
- An independent valuation firm engaged by our board of directors reviews approximately 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 the independent valuation firm at least annually.

In addition, all our investments are subject to the following valuation process:

- The audit committee of our board of directors reviews each preliminary valuation and our Manager and independent valuation firm (if applicable) will supplement the preliminary valuation to reflect any comments provided by the audit committee; and

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- Our board of directors discusses the valuations and approves the fair value of each investment, in good faith, based on the input of our Manager, independent valuation firm (to the extent applicable) and the audit committee of our board of directors.

Our investment in GSC Investment Corp. CLO 2007, Ltd. (“Saratoga CLO”) is carried at fair value, which is based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for equity interests in collateralized loan obligation funds similar to Saratoga CLO, when available, as determined by our Manager and recommended to our board of directors. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for the valuation of our investment in Saratoga CLO. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated valuations. The assumptions are based on available market data and projections provided by third parties as well as management estimates. We use the output from the Intex models (i.e., the estimated cash flows) to perform a discounted cash flows analysis on expected future cash flows to determine a valuation for our investment in Saratoga CLO.

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 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.

Derivative Financial Instruments

We account for derivative financial instruments in accordance with ASC Topic 815, *Derivatives and Hedging* (“ASC 815”). ASC 815 requires recognizing all derivative instruments as either assets or liabilities on the consolidated statements of assets and liabilities at fair value. The Company values derivative contracts at the closing fair value provided by the counterparty. Changes in the values of derivative contracts are included in the consolidated statements of operations.

Investment Transactions and Income Recognition

Purchases and sales of investments and the related realized gains or losses are recorded on a trade-date basis. 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. Discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment 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 investments.

Loans are generally placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reserved when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as a reduction in principal depending upon management’s judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management’s judgment, are likely to remain current, although we may make exceptions to this general rule if the loan has sufficient collateral value and is in the process of collection.

Interest income on our investment in Saratoga CLO is recorded using the effective interest method in accordance with the provisions of ASC Topic 325-40, *Investments-Other, Beneficial Interests in Securitized Financial Assets*, based on the anticipated yield and the estimated cash flows over the projected

life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the investment from the date the estimated yield was changed.

Paid-in-Kind Interest

The Company holds debt investments in its portfolio that contain a payment-in-kind (“PIK”) interest provision. The PIK interest, which represents contractually deferred interest added to the investment balance that is generally due at maturity, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We stop accruing PIK interest if we do not expect the issuer to be able to pay all principal and interest when due.

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Deferred Debt Financing Costs

Financing costs incurred in connection with our credit facility, SBA debentures and notes offering are deferred and amortized using the straight line method, which approximates the effective interest method, over the life of their respective debt instrument.

Contingencies

In the ordinary course of its business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on its history and experience, management feels that the likelihood of such an event is remote.

In the ordinary course of business, the Company may directly or indirectly be a defendant or plaintiff in legal actions with respect to bankruptcy, insolvency or other types of proceedings. Such lawsuits may involve claims that could adversely affect the value of certain financial instruments owned by the Company.

Income Taxes

The Company has filed an election 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 90.0% 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 4.0% on undistributed income if it does not distribute at least 98.0% of its ordinary income in any calendar year and 98.2% of its capital gain net income for each one-year period ending on October 31.

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4.0% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions for excise tax purposes, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned.

In accordance with certain applicable Treasury regulations and private letter rulings issued by the Internal Revenue Service, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all stockholders, which limitation must be at least 20.0% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20.0% of his or her entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock.

ASC 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions deemed to meet a “more-likely-than-not” threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statements of operations. As of August 31, 2013 and February 28, 2013, there were no uncertain tax positions.

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. Net realized capital gains, if any, are generally distributed at least annually, although we may decide to retain such capital gains for reinvestment.

We have 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. If our common stock is

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trading below net asset value at the time of valuation, the plan administrator may receive the dividend or distribution in cash and purchase common stock in the open market, on the New York Stock Exchange or elsewhere, for the account of each participant in our dividend reinvestment plan.

Capital Gains Incentive Fee

The Company records an expense accrual in the consolidated statements of operations relating to the capital gains incentive fee payable by the Company to its investment adviser when the unrealized gains on its investments exceed all realized capital losses on its investments given the fact that a capital gains incentive fee would be owed to the investment adviser if the Company were to liquidate its investment portfolio at such time. The actual incentive fee payable to the Company's investment adviser related to capital gains will be determined and payable in arrears at the end of each fiscal year and will include only realized capital gains for the period.

Risk Management

In the ordinary course of its business, the Company manages a variety of risks, including market risk and credit risk. Market risk is the risk of potential adverse changes to the value of investments because of changes in market conditions such as interest rate movements and volatility in investment prices.

Credit risk is the risk of default or non-performance by portfolio companies, equivalent to the investment's carrying amount.

The Company is also exposed to credit risk related to maintaining all of its cash and cash equivalents, including those in reserve accounts, at a major financial institution and credit risk related to any of its derivative counterparties.

The Company has investments in lower rated and comparable quality unrated high yield bonds and bank loans. Investments in high yield investments are accompanied by a greater degree of credit risk. The risk of loss due to default by the issuer is significantly greater for holders of high yield securities because such investments are generally unsecured and are often subordinated to other creditors of the issuer.

Note 3. Investments

As noted above, the Company values all investments in accordance with ASC 820. ASC 820 requires enhanced disclosures about assets and liabilities that are measured and reported at fair value. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability of inputs used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Based on the observability of the inputs used in the valuation techniques, the Company is required to provide disclosures on fair value measurements according to the fair value hierarchy. The fair value hierarchy ranks the observability of the inputs used to determine fair values. Investments carried at fair value are classified and disclosed in one of the following three categories:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2—Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The inputs used in the determination of fair value may require significant management judgment or estimation. Such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as a Level 3 asset, assuming no additional corroborating evidence.

In addition to using the above inputs in investment valuations, the Company continues to employ the valuation policy approved by the board of directors that is consistent with ASC 820 and the 1940 Act (see Note 2). Consistent with our Company's

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valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The following table presents fair value measurements of investments, by major class, as of August 31, 2013 (dollars in thousands), according to the fair value hierarchy:

| | Fair Value Measurements | | | |
|-------------------------------|-------------------------|---------|------------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Middle market loans | \$ — | \$ — | \$ 37,235 | \$ 37,235 |
| First lien term loans | — | — | 75,507 | 75,507 |
| Second lien term loans | — | — | 16,282 | 16,282 |
| Senior secured notes | — | — | 24,393 | 24,393 |
| Unsecured notes | — | — | 5,433 | 5,433 |
| Structured finance securities | — | — | 19,742 | 19,742 |
| Equity interest | — | — | 9,208 | 9,208 |
| Total | \$ — | \$ — | \$ 187,800 | \$ 187,800 |

The following table presents fair value measurements of investments, by major class, as of February 28, 2013 (dollars in thousands), according to the fair value hierarchy:

| | Fair Value Measurements | | | |
|-------------------------------|-------------------------|-------------|-------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| First lien term loans | \$ — | \$ — | \$ 83,792 | \$ 83,792 |
| Second lien term loans | — | — | 9,571 | 9,571 |
| Senior secured notes | — | — | 23,305 | 23,305 |
| Unsecured notes | — | — | 4,874 | 4,874 |
| Structured finance securities | — | — | 25,517 | 25,517 |
| Equity interest | — | — | 8,021 | 8,021 |
| Total | \$ — | \$ — | \$ 155,080 | \$ 155,080 |

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the six months ended August 31, 2013 (dollars in thousands):

| | Middle market loans | First lien term loans | Second lien term loans | Senior secured notes | Unsecured notes | Structured finance securities | Common stock/equities | Total |
|---|---------------------|-----------------------|------------------------|----------------------|-----------------|-------------------------------|-----------------------|-------------------|
| Balance as of February 28, 2013 | \$ — | \$ 83,792 | \$ 9,571 | \$ 23,305 | \$ 4,874 | \$ 25,517 | \$ 8,021 | \$ 155,080 |
| Net unrealized gains (losses) | 222 | 38 | (29) | (122) | 432 | (3,635) | 1,037 | (2,057) |
| Purchases and other adjustments to cost | 37,013 | 32,924 | 9,400 | 8,938 | 127 | — | 150 | 88,552 |
| Sales and redemptions | — | (41,650) | (3,030) | (7,728) | — | (2,140) | (301) | (54,849) |
| Net realized gains from investments | — | 403 | 370 | — | — | — | 301 | 1,074 |
| Balance as of August 31, 2013 | <u>\$ 37,235</u> | <u>\$ 75,507</u> | <u>\$ 16,282</u> | <u>\$ 24,393</u> | <u>\$ 5,433</u> | <u>\$ 19,742</u> | <u>\$ 9,208</u> | <u>\$ 187,800</u> |

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the six months ended August 31, 2012 (dollars in thousands):

| | First lien term loans | Second lien term loans | Senior secured notes | Senior unsecured loans | Unsecured notes | Structured finance securities | Common stock/equities | Total |
|---|-----------------------|------------------------|----------------------|------------------------|-----------------|-------------------------------|-----------------------|-------------------|
| Balance as of February 29, 2012 | \$ 36,196 | \$ 8,914 | \$ 10,706 | \$ 6,000 | \$ 2,008 | \$ 25,846 | \$ 5,690 | \$ 95,360 |
| Net unrealized gains (losses) | 708 | 70 | (321) | (147) | (157) | 3,225 | 1,649 | 5,027 |
| Purchases and other adjustments to cost | 24,798 | 2,812 | 266 | 107 | 94 | — | 1,213 | 29,290 |
| Sales and redemptions | (4,321) | (2,032) | — | (6,090) | — | (1,972) | (51) | (14,466) |
| Net realized gain from investments | 179 | 87 | — | 130 | — | — | 51 | 447 |
| Balance as of August 31, 2012 | <u>\$ 57,560</u> | <u>\$ 9,851</u> | <u>\$ 10,651</u> | <u>\$ —</u> | <u>\$ 1,945</u> | <u>\$ 27,099</u> | <u>\$ 8,552</u> | <u>\$ 115,658</u> |

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Purchases and other adjustments to cost include purchases of new investments at cost, effects of refinancing/restructuring, accretion/amortization of income from discount/premium on debt securities, and PIK.

Sales and redemptions represent net proceeds received from investments sold, and principal paydowns received, during the period.

The net change in unrealized gain/(loss) on investments held for the six months ended August 31, 2013 and 2012, was \$(2,349,502) and \$5,157,786, respectively, and is included in net unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of August 31, 2013 were as follows (dollars in thousands):

| | Fair Value | Valuation Technique | Unobservable Input | Range | Weighted Average Yield |
|-------------------------------|------------|----------------------|----------------------|----------------|------------------------|
| First lien term loans | \$ 112,742 | Market Comparables | Market Yield (%) | 6.0% - 19.0% | 9.4% |
| | | | EBITDA Multiples (x) | 3.0x | 3.0x |
| | | | Third-Party Bid | 98.2 - 100.0 | 99.3 |
| Second lien term loans | 16,282 | Market Comparables | Market Yield (%) | 9.5% - 11.3% | 10.5% |
| | | | Third-Party Bid | 98.0% - 100.0% | 98.9% |
| Senior secured notes | 24,393 | Market Comparables | Market Yield (%) | 11.0% - 42.5% | 12.9% |
| | | | EBITDA Multiples (x) | 5.0x | 5.0x |
| | | | Third-Party Bid | 101.0 - 101.5 | 101.2 |
| Unsecured notes | 5,433 | Market Comparables | Market Yield (%) | 8.4% - 23.2% | 14.3% |
| Structured finance securities | 19,742 | Discounted Cash Flow | Discount Rate (%) | 13.0% | 13.0% |
| Equity interests | 9,208 | Market Comparables | EBITDA Multiples (x) | 3.0x - 9.0x | 7.2x |

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of February 28, 2013 were as follows (dollars in thousands):

| | <u>Fair Value</u> | <u>Valuation Technique</u> | <u>Unobservable Input</u> | <u>Range</u> | <u>Weighted Average Yield</u> |
|-------------------------------|-------------------|----------------------------|---------------------------|---------------|-------------------------------|
| First lien term loans | \$ 83,792 | Market Comparables | Market Yield (%) | 5.8% - 26.9% | 10.0% |
| | | | EBITDA Multiples (x) | 3.0x | 3.0x |
| | | | Third-Party Bid | 96.5 - 102.0 | 100.1 |
| Second lien term loans | 9,571 | Market Comparables | Market Yield (%) | 11.5 % | 11.5% |
| | | | Third-Party Bid | 90.5 | 90.5 |
| Senior secured notes | 23,305 | Market Comparables | Market Yield (%) | 14.0% - 42.5% | 20.4% |
| | | | EBITDA Multiples (x) | 5.5x | 5.5x |
| | | | Third-Party Bid | 89.0 - 101.0 | 97.0 |
| Unsecured notes | 4,874 | Market Comparables | Market Yield (%) | 13.6% - 23.8% | 17.4% |
| Structured finance securities | 25,517 | Discounted Cash Flow | Discount Rate (%) | 13.0% | 13.0% |
| Equity interests | 8,021 | Market Comparables | EBITDA Multiples (x) | 3.0x - 8.9x | 6.6x |

For investments utilizing a market comparables valuation technique, a significant increase (decrease) in the market yield, in isolation, would result in a significantly lower (higher) fair value measurement, and a significant increase (decrease) in any of the EBITDA valuation multiples, in isolation, would result in a significantly higher (lower) fair value measurement. For investments utilizing a discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, in isolation, would result in a significantly lower (higher) fair value measurement.

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The composition of the Company's investments as of August 31, 2013, at amortized cost and fair value were as follows (dollars in thousands):

| | <u>Investments at Amortized Cost</u> | <u>Amortized Cost Percentage of Total Portfolio</u> | <u>Investments at Fair Value</u> | <u>Fair Value Percentage of Total Portfolio</u> |
|-------------------------------|--------------------------------------|---|----------------------------------|---|
| Middle market loans | \$ 37,012 | 20.1% | \$ 37,235 | 19.8% |
| First lien term loans | 75,564 | 41.0 | 75,507 | 40.2 |
| Second lien term loans | 16,213 | 8.8 | 16,282 | 8.7 |
| Senior secured notes | 25,829 | 14.0 | 24,393 | 13.0 |
| Unsecured notes | 6,885 | 3.7 | 5,433 | 2.9 |
| Structured finance securities | 16,805 | 9.2 | 19,742 | 10.5 |
| Equity interest | 5,879 | 3.2 | 9,208 | 4.9 |
| Total | <u>\$ 184,187</u> | <u>100.0%</u> | <u>\$ 187,800</u> | <u>100.0%</u> |

The composition of our investments as of February 28, 2013, at amortized cost and fair value were as follows (dollars in thousands):

| | <u>Investments at Amortized Cost</u> | <u>Amortized Cost Percentage of Total Portfolio</u> | <u>Investments at Fair Value</u> | <u>Fair Value Percentage of Total Portfolio</u> |
|-------------------------------|--------------------------------------|---|----------------------------------|---|
| First lien term loans | \$ 83,886 | 56.2% | \$ 83,792 | 54.0% |
| Second lien term loans | 9,473 | 6.3 | 9,571 | 6.2 |
| Senior secured notes | 24,619 | 16.5 | 23,305 | 15.0 |
| Unsecured notes | 6,758 | 4.5 | 4,874 | 3.1 |
| Structured finance securities | 18,945 | 12.7 | 25,517 | 16.5 |
| Equity interest | 5,729 | 3.8 | 8,021 | 5.2 |
| Total | <u>\$ 149,410</u> | <u>100.0%</u> | <u>\$ 155,080</u> | <u>100.0%</u> |

For loans and debt securities for which market quotations are not available, we determine their fair value based on third party indicative broker quotes, where available, or the assumptions that a hypothetical market participant would use to value the security in a current hypothetical sale using a market yield valuation methodology. In applying the market yield valuation methodology, we determine the fair value based on such factors as market participant assumptions including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. If, in our judgment, the market yield methodology is not sufficient or appropriate, we may use additional methodologies such as an asset liquidation or expected recovery model.

For equity securities of portfolio companies, we determine the fair value based on the market approach with value then attributed to equity or equity like securities using the enterprise value waterfall valuation methodology. Under the enterprise value waterfall valuation methodology, we determine the enterprise fair value of the portfolio company and then waterfall the enterprise value over the portfolio company's securities in order of their preference relative to one another. To estimate the enterprise value of the portfolio company, we weigh some or all of the traditional market valuation methods and factors based on the individual circumstances of the portfolio company in order to estimate the enterprise value. The methodologies for performing investments may be based on, among other things: valuations of comparable public companies, recent sales of private and public comparable companies, discounting the forecasted cash flows of the portfolio company, third party valuations of the portfolio company, considering offers from third parties to buy the company, estimating the value to potential strategic buyers and considering the value of recent investments in the equity securities of the portfolio company. For non-performing investments, we may estimate the liquidation or collateral value of the portfolio company's assets and liabilities. We also take into account historical and anticipated financial results.

Our investment in GSC Investment Corp. CLO 2007, Ltd. ("Saratoga CLO") is carried at fair value, which is based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for equity interests in collateralized loan obligation funds similar to Saratoga CLO, when available, as determined by our Manager and recommended to our board of directors. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for the valuation of our investment in Saratoga CLO. The models use a set of assumptions including projected default rates, recovery rates, reinvestment

rate and prepayment rates in order to arrive at estimated valuations. The assumptions are based on available market data and projections provided by third parties as well as management estimates. For the quarter ended August 31, 2013, in connection with the potential refinancing of the Saratoga CLO liabilities, we ran Intex models based on assumptions about the refinanced Saratoga CLO's structure, including capital structure, cost of liabilities and reinvestment period. We use the output from the Intex models (i.e., the estimated cash flows) to perform a discounted cash flows analysis on expected future cash flows to determine a valuation for our investment in Saratoga CLO at August 31, 2013. The significant inputs for the valuation model include:

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- Default rates: 2.0%
- Recovery rates: 35-75%
- Prepayment rate: 25.0%
- Reinvestment rate / price: L+375bps / \$99.25

Note 4. Investment in GSC Investment Corp. CLO 2007, Ltd. (“Saratoga CLO”)

On January 22, 2008, we invested \$30 million in all of the outstanding subordinated notes of Saratoga CLO, a collateralized loan obligation fund managed by us that invests primarily in senior secured loans. Additionally, we entered into a collateral management agreement with Saratoga CLO pursuant to which we act as collateral manager to it. In return for our collateral management services, we are entitled to a senior collateral management fee of 0.10% and a subordinate collateral management fee of 0.40% of the outstanding principal amount of Saratoga CLO's assets, to be paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20.0% of excess cash flow to the extent the Saratoga CLO subordinated notes receive an internal rate of return equal to or greater than 12.0%. For the six months ended August 31, 2013 and August 31, 2012, we accrued \$1.0 million and \$1.0 million in management fee income, respectively, and \$2.2 million and \$2.1 million in interest income, respectively, from Saratoga CLO. We did not accrue any amounts related to the incentive management fee as the 12.0% hurdle rate has not yet been achieved.

At August 31, 2013, the Company determined that the fair value of its investment in the subordinated notes of Saratoga CLO was \$19.7 million. The Company determines the fair value of its investment in the subordinated notes of Saratoga CLO based on the present value of the projected future cash flows of the subordinated notes over the life of Saratoga CLO. At August 31, 2013, Saratoga CLO had investments with a principal balance of \$331.0 million and a weighted average spread over LIBOR of 4.2%, and had debt with a principal balance of \$309.3 million with a weighted average spread over LIBOR of 1.5%. As a result, Saratoga CLO earns a “spread” between the interest income it receives on its investments and the interest expense it pays on its debt and other operating expenses, which is distributed quarterly to the Company as the holder of its subordinated notes. At August 31, 2013, the total “spread”, or projected future cash flows of the subordinated notes, over the life of Saratoga CLO was \$27.8 million, which had a present value of approximately \$20.1 million, using a 13.0% discount rate.

Below is certain financial information from the separate unaudited financial statements of Saratoga CLO as of August 31, 2013 and February 28, 2013 and for the three and six months ended August 31, 2013 and August 31, 2012.

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GSC Investment Corp. CLO 2007
Statements of Assets and Liabilities

| | As of | |
|--|--------------------------------|-----------------------|
| | August 31, 2013 (unaudited) | February 28, 2013 |
| ASSETS | | |
| Investments | | |
| Fair Value Loans (amortized cost of \$314,538,448 and \$366,099,395, respectively) | \$ 306,347,204 | \$ 362,494,006 |
| Fair Value Other/Structured finance securities (amortized cost of \$13,912,338 and \$13,743,946, respectively) | 13,180,411 | 11,925,973 |
| Total investments at fair value (amortized cost of 328,450,786 and 379,843,341, respectively) | 319,527,615 | 374,419,979 |
| Cash and cash equivalents | 12,901,271 | 28,804,871 |
| Receivable from open trades | 36,367 | 5,131,538 |
| Interest receivable | 1,709,975 | 1,584,985 |
| Other assets | 84,905 | — |
| Deferred bond issuance | 1,729,622 | 2,092,787 |
| Total assets | <u>\$ 335,989,755</u> | <u>\$ 412,034,160</u> |
| LIABILITIES | | |
| Interest payable | \$ 638,263 | \$ 666,121 |
| Payable from open trades | 36,367 | 16,346,250 |
| Accrued senior collateral monitoring fee | 39,704 | 43,171 |
| Accrued subordinate collateral monitoring fee | 158,818 | 172,682 |
| Class A notes | 239,382,488 | 296,000,000 |
| Class B notes | 22,000,000 | 22,000,000 |

| | | |
|---------------------------|-----------------------|-----------------------|
| Discount on class B notes | (386,526) | (417,011) |
| Class C notes | 14,000,000 | 14,000,000 |
| Class D notes | 16,000,000 | 16,000,000 |
| Discount on class D notes | (408,887) | (441,136) |
| Class E notes | 17,960,044 | 17,960,044 |
| Discount on class E notes | (1,051,823) | (1,134,778) |
| Subordinated notes | 30,000,000 | 30,000,000 |
| Total liabilities | <u>\$ 338,368,448</u> | <u>\$ 411,195,343</u> |

NET ASSETS

| | | |
|---|-----------------------|-----------------------|
| Ordinary equity, par value \$1.00, 250 ordinary shares authorized, 250 and 250 issued and outstanding, respectively | \$ 250 | \$ 250 |
| Accumulated loss | (3,560,496) | (5,963,092) |
| Net income | 1,181,553 | 6,801,659 |
| Total Net Assets | <u>(2,378,693)</u> | <u>838,817</u> |
| Total liabilities and net assets | <u>\$ 335,989,755</u> | <u>\$ 412,034,160</u> |

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GSC Investment Corp. CLO 2007

Statements of Operations (unaudited)

| | For the three months ended August 31 | | For the six months ended August 31 | |
|---|---|---------------------|---------------------------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 |
| INVESTMENT INCOME | | | | |
| Interest from investments | \$ 4,201,548 | \$ 4,938,022 | \$ 8,607,828 | \$ 9,855,747 |
| Interest from cash and cash equivalents | 1,295 | 5,549 | 4,451 | 10,832 |
| Other income | 325,629 | 103,633 | 677,266 | 315,173 |
| Total investment income | <u>4,528,472</u> | <u>5,047,204</u> | <u>9,289,545</u> | <u>10,181,752</u> |
| EXPENSES | | | | |
| Interest expense | 1,472,007 | 1,761,154 | 3,037,996 | 3,575,485 |
| Professional fees | 208,576 | 50,884 | 324,928 | 247,258 |
| Miscellaneous fee expense | 8,681 | 33,828 | 160,791 | 67,587 |
| Senior collateral monitoring fee | 96,150 | 100,045 | 195,768 | 200,013 |
| Subordinate collateral monitoring fee | 384,601 | 400,180 | 783,073 | 800,052 |
| Trustee expenses | 23,839 | 24,943 | 48,371 | 49,868 |
| Amortization expense | 254,427 | 254,427 | 508,854 | 508,854 |
| Total expenses | <u>2,448,281</u> | <u>2,625,461</u> | <u>5,059,781</u> | <u>5,449,117</u> |
| NET INVESTMENT INCOME | <u>2,080,191</u> | <u>2,421,743</u> | <u>4,229,764</u> | <u>4,732,635</u> |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS: | | | | |
| Net realized gain on investments | 213,058 | 323,076 | 451,600 | 1,412,130 |
| Net unrealized appreciation/(depreciation) on investments | (4,139,484) | 2,099,108 | (3,499,811) | 1,308,669 |
| Net gain/(loss) on investments | <u>(3,926,426)</u> | <u>2,422,184</u> | <u>(3,048,211)</u> | <u>2,720,799</u> |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | <u>\$ (1,846,235)</u> | <u>\$ 4,843,927</u> | <u>\$ 1,181,553</u> | <u>\$ 7,453,434</u> |

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GSC Investment Corp.

Schedule of Investments

August 31, 2013

(unaudited)

| Issuer Name | Industry | Asset Name | Asset Type | Current Rate | Maturity Date | Principal / Number of Shares | Cost | Fair Value |
|-----------------------------|----------------------|---------------------------|------------|--------------|---------------|------------------------------|------|------------|
| Elyria Foundry Company, LLC | Industrial Equipment | Preferred Warrants (2013) | Equity | 0.00% | | 7,291 | \$ — | \$ — |
| Elyria Foundry Company, LLC | Industrial Equipment | Warrants | Equity | 0.00% | | 2,000 | — | — |

| | | | | | | | | | |
|---|-----------------------------------|--|--------|--------|------------|----|-----------|-----------|-----------|
| Network Communications, Inc. | Business Equipment and Services | Common | Equity | 0.00% | | | 169,143 | 169,143 | — |
| OLD All, Inc (fka Aleris International Inc.) | Conglomerate | Common | Equity | 0.00% | | | 2,624 | 224,656 | — |
| PATS Aircraft, LLC | Aerospace and Defense | Common | Equity | 0.00% | | | 51,813 | 282,326 | — |
| SuperMedia Inc. (fka Idearc Inc.) | Publishing | Common Stock | Equity | 0.00% | | | 10,821 | 28,774 | 5,411 |
| Academy, LTD. | Retailers (Except Food and Drugs) | Initial Term Loan (2012) | Loan | | | | | | |
| Acosta, Inc. | Food Products | Term D Loan | Loan | 4.50% | 8/3/2018 | \$ | 1,970,112 | 1,957,444 | 1,977,225 |
| Aderant North America, Inc. | Business Equipment and Services | Term Loan (First Lien) | Loan | 5.00% | 3/2/2018 | \$ | 4,183,659 | 4,127,107 | 4,202,820 |
| Aeroflex Incorporated | Aerospace and Defense | Tranche B-1 Term Loan | Loan | 6.25% | 12/20/2018 | \$ | 3,491,250 | 3,487,298 | 3,460,702 |
| Alcatel-Lucent USA Inc. | Telecommunications/Cellular | US Term Loan | Loan | 4.50% | 11/9/2019 | \$ | 3,208,854 | 3,193,457 | 3,230,931 |
| Aler Inc. (fka IM US Holdings, LLC) | Healthcare | Incremental B-1 Term Loan | Loan | 7.25% | 1/30/2019 | \$ | 1,069,625 | 1,064,723 | 1,073,978 |
| Aptalis Pharma, Inc. (fka Axcan Intermediate Holdings Inc.) | Drugs | Term B-1 Loan | Loan | 4.25% | 6/30/2017 | \$ | 1,970,000 | 1,936,016 | 1,981,091 |
| Aramark Corporation | Food Products | LC-2 Facility | Loan | 5.50% | 2/10/2017 | \$ | 1,950,000 | 1,944,389 | 1,953,666 |
| Aramark Corporation | Food Products | LC-3 Facility | Loan | 3.69% | 7/26/2016 | \$ | 79,187 | 79,187 | 79,385 |
| Aramark Corporation | Food Products | U.S. Term B Loan (Extending) | Loan | 3.69% | 7/26/2016 | \$ | 43,961 | 43,961 | 44,070 |
| Aramark Corporation | Food Products | U.S. Term C Loan | Loan | 3.69% | 7/26/2016 | \$ | 1,204,093 | 1,204,093 | 1,207,103 |
| Asurion, LLC (fka Asurion Corporation) | Insurance | Incremental Tranche B-1 Term Loan | Loan | 3.75% | 7/26/2016 | \$ | 2,545,700 | 2,545,700 | 2,552,064 |
| Auction.Com, LLC | Business Equipment and Services | Term Loan A-4 | Loan | 4.50% | 5/24/2019 | \$ | 5,630,795 | 5,579,223 | 5,558,046 |
| Aurora Diagnostics, LLC | Conglomerate | Tranche B Term Loan | Loan | 4.20% | 2/28/2017 | \$ | 1,006,017 | 1,004,985 | 1,006,017 |
| Autotrader.com, Inc. | Automotive | Tranche B-1 Term Loan | Loan | 6.75% | 5/26/2016 | \$ | 3,188,889 | 3,196,819 | 2,854,056 |
| Avantor Performance Materials Holdings, Inc. | Chemicals/Plastics | Term Loan | Loan | 4.00% | 12/15/2016 | \$ | 3,811,273 | 3,811,273 | 3,836,694 |
| AZ Chem US Inc. | Chemicals/Plastics | Term Loan | Loan | 5.25% | 6/24/2017 | \$ | 4,900,000 | 4,884,291 | 4,900,000 |
| Biomet, Inc. | Healthcare | Dollar Term B-1 Loan | Loan | 5.25% | 12/22/2017 | \$ | 1,474,105 | 1,442,063 | 1,484,365 |
| Bombardier Recreational Products Inc. | Leisure | Term B Loan | Loan | 3.97% | 7/25/2017 | \$ | 1,980,038 | 1,980,038 | 1,983,998 |
| Brock Holdings III, Inc. | Goods/Activities/Movies | Term Loan (First Lien) | Loan | 4.00% | 1/30/2019 | \$ | 754,286 | 747,455 | 752,875 |
| Burlington Coat Factory Warehouse Corporation | Industrial Equipment | Term Loan (First Lien) | Loan | 6.01% | 3/16/2017 | \$ | 1,989,332 | 2,009,384 | 1,994,306 |
| C.H.I. Overhead Doors, Inc. (CHI) | Retailers (Except Food and Drugs) | Term B-2 Loan | Loan | 4.25% | 2/23/2017 | \$ | 2,769,901 | 2,762,023 | 2,789,290 |
| Camp International Holding Company | Home Furnishings | Term Loan (First Lien) | Loan | 5.50% | 3/18/2019 | \$ | 2,935,779 | 2,881,539 | 2,928,440 |
| Capital Automotive L.P. | Aerospace and Defense | Refinanced Term Loan (First Lien) | Loan | 5.25% | 5/31/2019 | \$ | 992,500 | 983,935 | 1,002,008 |
| Capstone Logistics, LLC | Conglomerate | Tranche B-1 Term Loan Facility | Loan | 4.00% | 4/10/2019 | \$ | 2,158,921 | 2,163,964 | 2,166,477 |
| Capstone Logistics, LLC | Business Equipment and Services | Term Note A | Loan | 4.00% | 4/10/2019 | \$ | 2,158,921 | 2,163,964 | 2,166,477 |
| Capsugel Holdings US, Inc. | Drugs | Initial Term Loan | Loan | 6.50% | 9/16/2016 | \$ | 2,692,494 | 2,666,994 | 2,652,258 |
| Celanese US Holdings LLC | Chemicals/Plastics | Dollar Term C Loan (Extended) | Loan | 4.75% | 8/1/2018 | \$ | 3,496,738 | 3,488,626 | 3,521,495 |
| Charter Communications Operating, LLC | Cable and Satellite Television | Term F Loan | Loan | 3.03% | 10/31/2016 | \$ | 2,187,260 | 2,205,007 | 2,211,254 |
| CHS/Community Health Systems, Inc. | Healthcare | Extended Term Loan | Loan | 3.00% | 12/31/2020 | \$ | 2,696,188 | 2,685,431 | 2,666,152 |
| Cinedigm Digital Funding I, LLC | Business Equipment and Services | Term Loan | Loan | 3.77% | 1/25/2017 | \$ | 4,064,516 | 3,976,668 | 4,075,693 |
| Contec, LLC | Electronics/Electric | Second Lien Term Notes | Loan | 3.75% | 2/28/2018 | \$ | 954,302 | 948,806 | 954,302 |
| Covanta Energy Corporation | Ecological Services and Equipment | Term Loan | Loan | 10.00% | 11/2/2016 | \$ | 401,202 | 2,126,716 | 401,202 |
| CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.) | Electronics/Electric | Term B Loan | Loan | 3.50% | 3/28/2019 | \$ | 493,750 | 491,784 | 496,219 |
| Crown Castle Operating Company | Telecommunications/Cellular | Term B Loan | Loan | 5.00% | 2/13/2017 | \$ | 4,805,833 | 4,791,985 | 4,805,833 |
| Culligan International Company | Telecommunications/Cellular | New Tranche B Term Loan | Loan | 3.25% | 1/31/2019 | \$ | 1,970,063 | 1,951,621 | 1,950,776 |
| Culligan International Company | Conglomerate | Dollar Loan (First Lien) | Loan | 6.25% | 12/19/2017 | \$ | 791,667 | 735,367 | 732,292 |
| DaVita HealthCare Partners Inc. (fka DaVita Inc.) | Conglomerate | Dollar Loan (Second Lien) | Loan | 9.50% | 6/19/2018 | \$ | 783,162 | 726,174 | 646,109 |
| DCS Business Services, Inc. | Healthcare | Tranche B Term Loan | Loan | 4.50% | 10/20/2016 | \$ | 3,929,471 | 3,929,471 | 3,953,991 |
| Del Monte Foods Company | Financial Intermediaries | Term B Loan | Loan | 7.25% | 3/19/2018 | \$ | 3,851,085 | 3,807,337 | 3,851,085 |
| DigitalGlobe, Inc. | Food Products | Initial Term Loan | Loan | 4.00% | 3/8/2018 | \$ | 4,304,067 | 4,338,097 | 4,300,451 |
| Dunkin' Brands, Inc. | Ecological Services and Equipment | Term Loan | Loan | 3.75% | 1/31/2020 | \$ | 249,375 | 249,375 | 251,011 |
| DynCorp International Inc. | Food Services | Term B-3 Loan | Loan | 3.75% | 2/14/2020 | \$ | 3,978,366 | 3,969,074 | 3,974,228 |
| Education Management LLC | Aerospace and Defense | Term Loan | Loan | 6.25% | 7/7/2016 | \$ | 574,161 | 568,698 | 578,227 |
| eInstruction Corporation | Leisure | Tranche C-2 Term Loan | Loan | | | | | | |
| Evergreen Acqco 1 LP | Goods/Activities/Movies | Term Loan | Loan | 4.31% | 6/1/2016 | \$ | 3,903,579 | 3,737,467 | 3,557,137 |
| Federal-Mogul Corporation | Electronics/Electric | Initial Term Loan | Loan | 0.00% | 7/2/2013 | \$ | 2,997,722 | 2,931,236 | 599,544 |
| Federal-Mogul Corporation | Retailers (Except Food and Drugs) | New Term Loan | Loan | | | | | | |
| Federal-Mogul Corporation | Automotive | Tranche B Term Loan | Loan | 5.00% | 7/9/2019 | \$ | 495,009 | 490,727 | 497,331 |
| First Data Corporation | Automotive | Tranche C Term Loan | Loan | 2.14% | 12/29/2014 | \$ | 2,575,409 | 2,510,509 | 2,507,805 |
| First Data Corporation | Financial Intermediaries | 2017 New Dollar Term Loan | Loan | 2.14% | 12/28/2015 | \$ | 1,313,984 | 1,267,685 | 1,279,492 |
| First Data Corporation | Financial Intermediaries | 2018 Dollar Term Loan | Loan | 4.20% | 3/24/2017 | \$ | 2,111,028 | 2,018,375 | 2,089,917 |
| Generac Power Systems, Inc. | Industrial Equipment | Term Loan B | Loan | 4.20% | 3/23/2018 | \$ | 2,290,451 | 2,224,159 | 2,266,264 |
| General Nutrition Centers, Inc. | Industrial Equipment | Term Loan B | Loan | 3.50% | 5/31/2020 | \$ | 872,778 | 855,957 | 867,593 |
| Global Tel*Link Corporation | Retailers (Except Food and Drugs) | Amended Tranche B Term Loan | Loan | | | | | | |
| Goodyear Tire & Rubber Company, The | Business Equipment and Services | Term Loan (First Lien) | Loan | 3.75% | 3/2/2018 | \$ | 4,742,272 | 4,752,417 | 4,763,612 |
| Grifols Inc. | Chemicals/Plastics | Loan (Second Lien) | Loan | 5.00% | 5/23/2020 | \$ | 1,929,825 | 1,925,191 | 1,890,630 |
| Grosvenor Capital Management Holdings, LLLP | Chemicals/Plastics | New U.S. Tranche B Term Loan | Loan | 4.75% | 4/30/2019 | \$ | 4,000,000 | 3,935,381 | 4,020,680 |
| HCA Inc. | Drugs | Loan (Second Lien) | Loan | 4.25% | 6/1/2017 | \$ | 3,443,261 | 3,435,740 | 3,461,235 |
| Health Management Associates, Inc. | Brokers/Dealers/Investment Houses | Tranche C Term Loan | Loan | 4.25% | 12/5/2016 | \$ | 3,287,843 | 3,216,154 | 3,271,404 |
| Hertz Corporation, The | Healthcare | Tranche B-4 Term Loan | Loan | 2.94% | 5/1/2018 | \$ | 5,734,690 | 5,364,290 | 5,728,325 |
| HIBU PLC (fka Yell Group PLC) | Healthcare | Replacement Term B Loan | Loan | 3.50% | 11/16/2018 | \$ | 2,909,582 | 2,887,578 | 2,912,143 |
| HMH Holdings (Delaware) Inc. | Automotive | Tranche B-1 Term Loan | Loan | 3.75% | 3/11/2018 | \$ | 2,985,000 | 3,025,398 | 2,987,657 |
| Hologic, Inc. | Business Equipment and Services | Facility B1 - YB (USA) LLC (11/2009) | Loan | | | | | | |
| Hunter Defense Technologies, Inc. | Business Equipment and Services | Facility B1 - YB (USA) LLC (11/2009) | Loan | 3.94% | 7/31/2014 | \$ | 3,030,606 | 2,983,167 | 642,913 |
| Huntsman International LLC | Conglomerate | Term Loan (Exit Facility) | Loan | 5.25% | 5/22/2018 | \$ | 987,500 | 971,700 | 987,500 |
| Infor (US), Inc. (fka Lawson Software Inc.) | Healthcare | Refinancing Tranche A Term Loan | Loan | 2.19% | 8/1/2017 | \$ | 2,375,000 | 2,369,677 | 2,370,060 |
| Inventiv Health, Inc. (fka Ventive Health, Inc) | Aerospace and Defense | Term Loan | Loan | 3.45% | 8/22/2014 | \$ | 3,581,279 | 3,560,825 | 3,420,121 |
| J. Crew Group, Inc. | Chemicals/Plastics | Extended Term B Loan | Loan | 2.73% | 4/19/2017 | \$ | 3,920,000 | 3,888,115 | 3,915,923 |
| JFB Firth Rixson Inc. | Business Equipment and Services | Tranche B-2 Term Loan | Loan | | | | | | |
| Kinetic Concepts, Inc. | Conglomerate | Consolidated Term Loan | Loan | 5.34% | 4/5/2018 | \$ | 1,781,132 | 1,766,316 | 1,790,412 |
| Michaels Stores, Inc. | Conglomerate | Consolidated Term Loan | Loan | 7.50% | 8/4/2016 | \$ | 492,090 | 492,090 | 481,426 |
| Microsemi Corporation | Retailers (Except Food and Drugs) | Term B-1 Loan | Loan | 4.00% | 3/7/2018 | \$ | 977,500 | 977,500 | 975,731 |
| National CineMedia, LLC | Industrial Equipment | 2013 Replacement Dollar Term Facility Loan | Loan | 4.25% | 6/30/2017 | \$ | 2,577,262 | 2,565,974 | 2,570,819 |
| Newsday, LLC | Healthcare | Dollar Term D-1 Loan | Loan | 5.50% | 5/4/2018 | \$ | 492,525 | 476,050 | 493,141 |
| Novelis, Inc. | Retailers (Except Food and Drugs) | Term B Loan | Loan | 3.75% | 1/28/2020 | \$ | 498,750 | 498,750 | 500,151 |
| NPC International, Inc. | Electronics/Electric | Term Loan | Loan | 3.75% | 2/19/2020 | \$ | 2,503,704 | 2,498,586 | 2,510,739 |
| NRG Energy, Inc. | Leisure | Term Loan (2013) | Loan | | | | | | |
| NuSil Technology LLC. | Goods/Activities/Movies | Term Loan | Loan | 2.95% | 11/26/2019 | \$ | 1,086,207 | 1,051,412 | 1,078,831 |
| OEP Pearl Dutch Acquisition B.V. On Assignment, Inc. | Publishing | Term Loan | Loan | 3.69% | 10/12/2016 | \$ | 2,953,846 | 2,950,725 | 2,950,154 |
| OpenLink International, Inc. | Conglomerate | Initial Term Loan | Loan | 3.75% | 3/10/2017 | \$ | 4,882,514 | 4,895,180 | 4,877,437 |
| P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.) | Food Products | Term Loan | Loan | 4.50% | 12/28/2018 | \$ | 490,833 | 490,833 | 493,287 |
| PATS Aircraft, LLC | Utilities | Term Loan (2013) | Loan | 3.25% | 7/1/2018 | \$ | 3,920,175 | 3,892,186 | 3,892,303 |
| Penn National Gaming, Inc. | Chemicals/Plastics | Term Loan | Loan | 5.25% | 4/7/2017 | \$ | 813,633 | 813,633 | 796,685 |
| Penn National Gaming, Inc. | Chemicals/Plastics | Initial BV Term Loan | Loan | 6.50% | 3/30/2018 | \$ | 143,147 | 140,942 | 143,863 |
| Penn National Gaming, Inc. | Business Equipment and Services | Initial Term B Loan | Loan | | | | | | |
| PetCo Animal Supplies, Inc. | Healthcare | Term Loan (First Lien 2013) | Loan | 3.50% | 5/15/2020 | \$ | 1,911,364 | 1,898,397 | 1,901,807 |
| Pharmaceutical Product Development, Inc. (Jaguar Holdings, LLC) | Business Equipment and Services | Initial Term Loan | Loan | 5.00% | 2/25/2017 | \$ | 4,647,343 | 4,625,018 | 4,682,198 |
| Pinnacle Foods Finance LLC | Food/Drug Retailers | Term Borrowing | Loan | 7.75% | 10/30/2017 | \$ | 985,000 | 971,327 | 985,000 |
| Preferred Proppants, LLC | Food Products | Term Loan | Loan | 5.25% | 6/22/2019 | \$ | 992,500 | 984,180 | 1,003,666 |
| Prestige Brands, Inc. | Aerospace and Defense | Term Loan | Loan | 8.50% | 10/6/2016 | \$ | 267,998 | 191,682 | 200,998 |
| Pro Mach, Inc. | Lodging and Casinos | Term A Facility | Loan | 1.96% | 7/14/2016 | \$ | 2,702,663 | 2,655,658 | 2,701,311 |
| Quintiles Transnational Corp. | Lodging and Casinos | Term B Facility | Loan | 3.75% | 7/16/2018 | \$ | 840,963 | 839,501 | 841,434 |
| Reynold LLC/RBS Global, Inc. | Retailers (Except Food and Drugs) | New Loans | Loan | | | | | | |
| Reynolds Group Holdings Inc. | Conglomerate | 2013 Term Loan | Loan | 4.00% | 11/24/2017 | \$ | 1,492,347 | 1,490,703 | 1,497,108 |
| Rocket Software, Inc. | Conglomerate | 2013 Term Loan | Loan | | | | | | |
| Rocket Software, Inc. | Food Products | New Term Loan G | Loan | 4.25% | 12/5/2018 | \$ | 1,970,100 | 1,943,498 | 1,967,637 |
| Rocket Software, Inc. | Food Products | New Term Loan G | Loan | 3.25% | 4/29/2020 | \$ | 4,987,500 | 4,975,571 | 4,933,485 |
| Rocket Software, Inc. | Nonferrous Metals/Minerals | Term B Loan | Loan | 9.00% | 12/15/2016 | \$ | 1,970,000 | 1,943,401 | 1,191,850 |
| Rocket Software, Inc. | Drugs | Term B-1 Loan | Loan | 3.75% | 1/31/2019 | \$ | 662,879 | 653,815 | 666,690 |
| Rocket Software, Inc. | Drugs | Term B-1 Loan | Loan | 5.00% | 7/6/2017 | \$ | 1,955,436 | 1,942,796 | 1,963,590 |
| Rocket Software, Inc. | Industrial Equipment | Term B-2 Loan | Loan | 4.50% | 6/8/2018 | \$ | 3,681,541 | 3,656,454 | 3,691,886 |
| Rocket Software, Inc. | Industrial Equipment | Term B Loan | Loan | 3.75% | 4/1/2018 | \$ | 1,667,645 | 1,667,645 | 1,648,884 |
| Rocket Software, Inc. | Industrial Equipment | U.S. Term Loan | Loan | 4.75% | 9/28/2018 | \$ | 1,985,000 | 1,985,000 | 1,996,950 |
| Rocket Software, Inc. | Business Equipment and Services | Term Loan (First Lien) | Loan | 5.75% | 2/8/2018 | \$ | 1,970,012 | 1,940,661 | 1,967,964 |

| | | | | | | | | | |
|--|-----------------------------------|--|------|--------|------------|----|-----------|-----------------------|-----------------------|
| Rouddy's Supermarkets, Inc. | Food/Drug Retailers | Tranche B Term Loan | Loan | 5.75% | 2/13/2019 | \$ | 987,211 | 975,631 | 968,700 |
| Rovi Solutions Corporation / Rovi Guides, Inc. | Electronics/Electric | Tranche A-2 Loan | Loan | 2.45% | 3/29/2017 | \$ | 1,860,226 | 1,845,775 | 1,855,576 |
| Rovi Solutions Corporation / Rovi Guides, Inc. | Electronics/Electric | Tranche B-3 Term Loan | Loan | 3.50% | 3/29/2019 | \$ | 1,381,244 | 1,375,730 | 1,374,338 |
| RPI Finance Trust | Drugs | 6.75 Year Term Loan(2012) | Loan | 3.50% | 5/9/2018 | \$ | 5,335,132 | 5,312,791 | 5,355,139 |
| Scientific Games International Inc. | Electronics/Electric | Tranche B-1 Term Loan | Loan | 3.45% | 6/30/2015 | \$ | 1,966,714 | 1,957,254 | 1,945,415 |
| Scitor Corporation | Business Equipment and Services | Term Loan | Loan | 5.00% | 2/15/2017 | \$ | 463,977 | 462,639 | 458,758 |
| Sensata Technology BV/Sensata Technology Finance Company, LLC | Electronics/Electric | Term Loan | Loan | 3.75% | 5/12/2018 | \$ | 1,036,090 | 1,036,090 | 1,042,565 |
| Sensus USA Inc. (fka Sensus Metering Systems) | Utilities | Term Loan (First Lien) | Loan | 4.75% | 5/9/2017 | \$ | 1,955,000 | 1,948,970 | 1,928,119 |
| ServiceMaster Company, The | Conglomerate | Tranche B Term Loan | Loan | 4.45% | 1/31/2017 | \$ | 2,837,058 | 2,845,769 | 2,755,890 |
| SI Organization, Inc., The | Aerospace and Defense | New Tranche B Term Loan | Loan | 5.50% | 11/22/2016 | \$ | 3,900,225 | 3,879,246 | 3,792,969 |
| Sonneborn, LLC | Chemicals/Plastics | Initial US Term Loan | Loan | 6.50% | 3/30/2018 | \$ | 811,166 | 798,673 | 815,222 |
| Sophia, L.P | Electronics/Electric | Term B Loan | Loan | 4.50% | 7/19/2018 | \$ | 964,398 | 951,430 | 967,291 |
| SRA International Inc. | Aerospace and Defense | Term Loan | Loan | 6.50% | 7/20/2018 | \$ | 3,268,571 | 3,175,037 | 3,231,800 |
| SRAM, LLC | Industrial Equipment | Term Loan (First Lien) | Loan | 4.01% | 4/10/2020 | \$ | 3,340,965 | 3,312,653 | 3,315,908 |
| SS&C Technologies Holdings Europe S.A.R.L. | Business Equipment and Services | 2013 Replacement Term B-2 Loan | Loan | 5.00% | 6/7/2019 | \$ | 74,115 | 73,402 | 74,020 |
| SS&C Technologies, Inc., /Sunshine Acquisition II, Inc. | Business Equipment and Services | 2013 Replacement Term B-1 Loan | Loan | 5.00% | 6/7/2019 | \$ | 716,450 | 709,557 | 715,540 |
| SunCoke Energy, Inc. | Nonferrous Metals/Minerals | Tranche B Term Loan | Loan | 4.00% | 7/26/2018 | \$ | 1,367,311 | 1,358,287 | 1,357,056 |
| SunGard Data Systems Inc (Solar Capital Corp.) | Conglomerate | Tranche C Term Loan | Loan | 3.95% | 2/28/2017 | \$ | 304,311 | 301,811 | 304,941 |
| SunGard Data Systems Inc (Solar Capital Corp.) | Conglomerate | Tranche E Term Loan | Loan | 4.00% | 3/8/2020 | \$ | 4,243,114 | 4,107,242 | 4,268,318 |
| SuperMedia Inc. (fka Idearc Inc.) | Publishing | Loan | Loan | 11.60% | 12/30/2016 | \$ | 278,154 | 270,579 | 215,800 |
| Syniverse Holdings, Inc. | Telecommunications | Initial Term Loan | Loan | 5.00% | 4/23/2019 | \$ | 495,000 | 490,995 | 496,391 |
| Tamnico Global Chemical Corporation | Chemicals/Plastics | Tranche B-2 Dollar Term Loan | Loan | 4.25% | 2/15/2019 | \$ | 1,481,306 | 1,472,417 | 1,490,105 |
| Tean Health, Inc. | Healthcare | Tranche B Term Loan | Loan | 3.75% | 6/29/2018 | \$ | 4,410,000 | 4,394,716 | 4,398,975 |
| TECTUM HOLDINGS INC | Industrial Equipment | Term Loan | Loan | 7.50% | 12/3/2015 | \$ | 3,900,000 | 3,884,931 | 3,880,500 |
| Texas Competitive Electric Holdings Company, LLC (TXU) | Utilities | 2014 Term Loan (Non-Extending) | Loan | 3.72% | 10/10/2014 | \$ | 5,580,862 | 5,544,221 | 3,792,977 |
| Tomkins, LLC / Tomkins, Inc. (fka Pinafore, LLC / Pinafore, Inc.) | Conglomerate | Term B-2 Loan | Loan | 3.75% | 9/29/2016 | \$ | 2,404,012 | 2,409,016 | 2,409,012 |
| TransDigm Inc. | Aerospace and Defense | Tranche C Term Loan | Loan | 3.75% | 2/28/2020 | \$ | 4,921,244 | 4,930,307 | 4,914,403 |
| Tricorbraun Inc. (fka Kranson Industries, Inc.) | Containers/Glass Products | Term Loan | Loan | 4.00% | 5/3/2018 | \$ | 1,980,000 | 1,972,254 | 1,980,000 |
| Truven Health Analytics Inc. (fka Thomson Reuters (Healthcare) Inc.) | Healthcare | New Tranche B Term Loan | Loan | 4.50% | 6/6/2019 | \$ | 495,009 | 486,462 | 496,455 |
| Tube City IMS Corporation | Steel | Term Loan | Loan | 4.75% | 3/20/2019 | \$ | 987,538 | 979,661 | 987,538 |
| U.S. Security Associates Holdings, Inc. | Business Equipment and Services | Delayed Draw Loan | Loan | 6.00% | 7/28/2017 | \$ | 160,963 | 159,912 | 161,566 |
| U.S. Security Associates Holdings, Inc. | Business Equipment and Services | Term B Loan | Loan | 6.00% | 7/28/2017 | \$ | 123,121 | 122,677 | 123,583 |
| U.S. Security Associates Holdings, Inc. | Business Equipment and Services | Term B Loan | Loan | 6.00% | 7/28/2017 | \$ | 822,356 | 816,991 | 825,440 |
| U.S. Silica Company | Nonferrous Metals/Minerals | Term Loan | Loan | 4.75% | 6/8/2017 | \$ | 1,960,000 | 1,950,353 | 1,958,373 |
| U.S. Xpress Enterprises, Inc. | Industrial Equipment | Extended Term Loan | Loan | 9.00% | 11/13/2016 | \$ | 2,877,208 | 2,830,035 | 2,855,629 |
| United Surgical Partners International, Inc. | Healthcare | New Tranche B Term Loan | Loan | 4.75% | 4/3/2019 | \$ | 2,468,875 | 2,439,237 | 2,486,354 |
| Univar Inc. | Chemicals/Plastics | Term B Loan | Loan | 5.00% | 6/30/2017 | \$ | 3,904,934 | 3,904,123 | 3,804,889 |
| Univision Communications Inc. | Telecommunications | 2013 Converted Extended First-Lien Term Loan | Loan | 4.50% | 3/1/2020 | \$ | 2,992,500 | 2,975,150 | 2,983,342 |
| UPC Financing Partnership | Broadcast Radio and Television | Facility AF | Loan | 4.00% | 1/31/2021 | \$ | 1,000,000 | 972,800 | 1,003,330 |
| Valeant Pharmaceuticals International, Inc. | Drugs | Series D-1 Tranche B Term Loan | Loan | 3.50% | 2/13/2019 | \$ | 2,955,150 | 2,943,920 | 2,963,247 |
| Verint Systems Inc. | Business Equipment and Services | Term Loan | Loan | 4.00% | 9/6/2019 | \$ | 1,910,400 | 1,901,568 | 1,915,176 |
| Vertafore, Inc. | Business Equipment and Services | Term Loan (2013) | Loan | 4.25% | 10/3/2019 | \$ | 2,969,728 | 2,969,728 | 2,979,024 |
| Visant Corporation (fka Jostens) | Leisure | Tranche B Term Loan (2011) | Loan | 5.25% | 12/22/2016 | \$ | 3,658,446 | 3,658,446 | 3,534,974 |
| Washington Inventory Service | Business Equipment and Services | U.S. Term Loan (First Lien) | Loan | 5.75% | 12/20/2018 | \$ | 1,990,000 | 2,016,816 | 1,987,513 |
| Wendy's International, Inc | Food Services | Term B Loan | Loan | 3.25% | 5/15/2019 | \$ | 683,889 | 677,387 | 681,612 |
| West Corporation | Telecommunications | Term B-8 Loan | Loan | 3.75% | 6/30/2018 | \$ | 2,963,339 | 3,010,081 | 2,963,338 |
| Wolverine World Wide, Inc. | Clothing/Textiles | Tranche B Term Loan | Loan | 4.00% | 10/9/2019 | \$ | 779,286 | 772,390 | 783,182 |
| Yankee Candle Company, Inc., The | Retailers (Except Food and Drugs) | Initial Term Loan | Loan | 5.25% | 4/2/2019 | \$ | 2,256,466 | 2,238,458 | 2,270,003 |
| BABSN 2007-1A | Financial Intermediaries | Floating - 01/2021 - D1 - 05617AAA9 | ABS | 3.55% | 1/18/2021 | \$ | 1,500,000 | 1,274,293 | 1,275,000 |
| GALE 2007-3A | Financial Intermediaries | Floating - 04/2021 - E - 363205AA3 | ABS | 3.78% | 4/19/2021 | \$ | 4,000,000 | 3,424,563 | 3,400,000 |
| KATO 2006-9A | Financial Intermediaries | Floating - 01/2019 - B2L - 486010AA9 | ABS | 3.78% | 1/25/2019 | \$ | 5,000,000 | 4,395,720 | 4,250,000 |
| STCLO 2007-6A | Financial Intermediaries | Floating - 04/2021 - D- 86176YAG7 | ABS | 3.88% | 4/17/2021 | \$ | 5,000,000 | 4,112,853 | 4,250,000 |
| | | | | | | | | \$ 328,450,786 | \$ 319,527,615 |

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GSC Investment Corp. CLO 2007

Schedule of Investments

February 28, 2013

| Issuer Name | Industry | Asset Name | Asset Type | Current Rate | Maturity Date | Principal / Number of Shares | Cost | Fair Value |
|---|-----------------------------------|-----------------------------------|------------|--------------|---------------|------------------------------|-----------|------------|
| Elyria Foundry Company, LLC | Industrial Equipment | Warrants | Equity | 0.00% | | | | |
| Network Communications, Inc. | Business Equipment and Services | Common | Equity | 0.00% | | 169,143 | 169,143 | 659,658 |
| OLD AII, Inc (fka Aleris International Inc.) | Conglomerate | Common | Equity | 0.00% | | 2,624 | 224,656 | 128,576 |
| PATS Aircraft, LLC | Aerospace and Defense | Common | Equity | 0.00% | | 51,813 | 282,326 | 282,329 |
| SuperMedia Inc. (fka Idearc Inc.) | Publishing | Common Stock | Equity | 0.00% | | 10,821 | 28,784 | 5,411 |
| Academy, LTD. | Retailers (Except Food and Drugs) | Initial Term Loan (2012) | Loan | 4.75% | 8/3/2018 | \$ 1,980,037 | 1,966,002 | 2,000,927 |
| ACCO Brands Corporation | Conglomerate | Term B Loan | Loan | 4.25% | 5/1/2019 | \$ 351,944 | 348,847 | 354,584 |
| Acosta, Inc. | Food Products | Term D Loan | Loan | 5.00% | 3/2/2018 | \$ 4,183,659 | 4,120,774 | 4,216,082 |
| Aderant North America, Inc. | Business Equipment and Services | Term Loan (First Lien) | Loan | 6.25% | 12/20/2018 | \$ 3,500,000 | 3,495,662 | 3,552,500 |
| Aeroflex Incorporated | Aerospace and Defense | Tranche B Term Loan | Loan | 5.75% | 5/9/2018 | \$ 3,345,517 | 3,333,081 | 3,369,204 |
| Alcatel-Lucent USA Inc. | Telecommunications/Cellular | US Term Loan | Loan | 0.00% | 1/30/2019 | \$ 1,075,000 | 1,069,625 | 1,087,008 |
| Alere Inc. (fka IM US Holdings, LLC) | Healthcare | Incremental B-1 Term Loan | Loan | 4.75% | 6/30/2017 | \$ 1,980,000 | 1,941,348 | 1,999,444 |
| Aptalis Pharma, Inc. (fka Axcan Intermediate Holdings Inc.) | Drugs | Term B-1 Loan | Loan | 5.50% | 2/10/2017 | \$ 1,960,000 | 1,953,535 | 1,963,920 |
| Aramark Corporation | Food Products | LC-2 Facility | Loan | 3.45% | 7/26/2016 | \$ 79,187 | 79,187 | 79,600 |
| Aramark Corporation | Food Products | LC-3 Facility | Loan | 3.45% | 7/26/2016 | \$ 43,961 | 43,961 | 44,190 |
| Aramark Corporation | Food Products | U.S. Term B Loan | Loan | 3.45% | 7/26/2016 | \$ 1,204,093 | 1,204,093 | 1,210,366 |
| Aramark Corporation | Food Products | U.S. Term C Loan | Loan | 3.52% | 7/26/2016 | \$ 2,545,700 | 2,545,700 | 2,558,963 |
| Armstrong World Industries, Inc | Building and Development | Term Loan B-1 | Loan | 4.00% | 3/10/2018 | \$ 2,122,931 | 2,109,740 | 2,124,268 |
| Asurion, LLC (fka Asurion Corporation) | Insurance | Amortizing Term Loan | Loan | 4.75% | 7/23/2017 | \$ 968,750 | 960,226 | 973,594 |
| Asurion, LLC (fka Asurion Corporation) | Insurance | Incremental Tranche B-1 Term Loan | Loan | 4.50% | 5/24/2019 | \$ 5,659,091 | 5,602,698 | 5,674,144 |
| Auction.Com, LLC | Business Equipment and Services | Term Loan A-4 | Loan | 4.96% | 8/30/2016 | \$ 1,018,699 | 1,017,479 | 1,013,606 |
| Aurora Diagnostics, LLC | Conglomerate | Tranche B Term Loan | Loan | 6.25% | 5/26/2016 | \$ 3,188,889 | 3,198,281 | 3,077,278 |
| Autotrader.com, Inc. | Automotive | Tranche B-1 Term Loan | Loan | 4.00% | 12/15/2016 | \$ 3,830,768 | 3,830,768 | 3,853,522 |

| | | | | | | | | |
|---|-----------------------------------|-----------------------------------|------|--------|------------|--------------|-----------|-----------|
| Avantor Performance Materials Holdings, Inc. | Chemicals/Plastics | Term Loan | Loan | 5.25% | 6/24/2017 | \$ 4,925,000 | 4,907,124 | 4,925,000 |
| AZ Chem US Inc. | Chemicals/Plastics | Term Loan | Loan | 5.25% | 12/22/2017 | \$ 1,570,579 | 1,532,447 | 1,585,170 |
| Biomet, Inc. | Healthcare | Dollar Term B-1 Loan | Loan | 4.00% | 7/25/2017 | \$ 1,990,013 | 1,990,013 | 2,003,445 |
| Bombardier Recreational Products Inc. | Leisure | Term B Loan | Loan | | | | | |
| | Goods/Activities/Movies | | | 5.00% | 1/30/2019 | \$ 1,000,000 | 990,101 | 1,007,500 |
| Brock Holdings III, Inc. | Industrial Equipment | Term Loan (First Lien) | Loan | 0.00% | 3/16/2017 | \$ 2,000,000 | 2,022,500 | 2,013,340 |
| Burlington Coat Factory Warehouse Corporation | Retailers (Except Food and Drugs) | Term B-1 Loan | Loan | | | | | |
| | | | | 5.50% | 2/23/2017 | \$ 2,776,843 | 2,767,803 | 2,802,306 |
| C.H.I. Overhead Doors, Inc. (CHI) | Home Furnishings | Term Loan (First Lien) | Loan | 7.25% | 8/17/2017 | \$ 2,976,290 | 2,931,556 | 2,983,730 |
| Camp International Holding Company | Aerospace and Defense | Refinanced Term Loan (First Lien) | Loan | 5.25% | 5/31/2019 | \$ 997,500 | 988,136 | 1,005,400 |
| Capital Automotive L.P. | Conglomerate | Tranche B Term Loan | Loan | 5.25% | 3/11/2017 | \$ 2,811,086 | 2,817,777 | 2,823,961 |
| Capstone Logistics, LLC | Business Equipment and Services | Term Note A | Loan | | | | | |
| | | | | 7.50% | 9/16/2016 | \$ 2,699,305 | 2,669,394 | 2,658,816 |
| Capsugel Holdings US, Inc. | Drugs | Initial Term Loan (New) | Loan | 4.75% | 8/1/2018 | \$ 3,605,198 | 3,595,976 | 3,641,214 |
| Celanese US Holdings LLC | Chemicals/Plastics | Dollar Term C Loan (Extended) | Loan | | | | | |
| | | | | 3.06% | 10/31/2016 | \$ 2,198,534 | 2,219,212 | 2,208,911 |
| Cenveo Corporation | Publishing | Term B Facility | Loan | 7.00% | 12/21/2016 | \$ 2,437,399 | 2,421,925 | 2,444,516 |
| Charter Communications Operating, LLC | Cable and Satellite Television | Term C Loan | Loan | | | | | |
| | | | | 3.46% | 9/6/2016 | \$ 2,047,547 | 2,044,048 | 2,057,785 |
| Charter Communications Operating, LLC | Cable and Satellite Television | Term D Loan | Loan | | | | | |
| | | | | 4.00% | 5/15/2019 | \$ 1,985,000 | 1,976,313 | 2,000,503 |
| CHS/ Community Health Systems, Inc. | Healthcare | Extended Term Loan | Loan | 3.79% | 1/25/2017 | \$ 4,064,516 | 3,963,653 | 4,090,935 |
| Cinedigm Digital Funding I, LLC | Business Equipment and Services | Term Loan | Loan | | | | | |
| | | | | 5.75% | 2/28/2018 | \$ 1,066,260 | 1,059,429 | 1,068,925 |
| Contec, LLC | Electronics/Electric | Second Lien Term Notes | Loan | 10.00% | 11/2/2016 | \$ 401,202 | 2,400,891 | 2,578,210 |
| Covanta Energy Corporation | Ecological Services and Equipment | Term Loan | Loan | | | | | |
| | | | | 4.00% | 3/28/2019 | \$ 496,250 | 494,095 | 501,833 |
| CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.) | Electronics/Electric | Term B Loan | Loan | | | | | |
| | | | | 5.00% | 2/13/2017 | \$ 4,805,833 | 4,789,964 | 4,829,862 |
| Crown Castle Operating Company | Telecommunications/Cellular | Tranche B Term Loan | Loan | 4.00% | 1/31/2019 | \$ 1,980,000 | 1,963,120 | 1,989,484 |
| Culligan International Company | Conglomerate | Dollar Loan (First Lien) | Loan | 6.25% | 12/19/2017 | \$ 795,675 | 732,459 | 729,372 |
| Culligan International Company | Conglomerate | Dollar Loan (Second Lien) | Loan | | | | | |
| | | | | 9.50% | 6/19/2018 | \$ 783,162 | 720,189 | 604,343 |
| DaVita HealthCare Partners Inc. (fka DaVita Inc.) | Healthcare | Tranche B Term Loan | Loan | | | | | |
| | | | | 4.50% | 10/20/2016 | \$ 3,949,622 | 3,949,622 | 3,977,822 |
| DCS Business Services, Inc. | Financial Intermediaries | Term B Loan | Loan | 7.25% | 3/19/2018 | \$ 3,970,010 | 3,919,904 | 3,910,460 |
| Del Monte Foods Company | Food Products | Initial Term Loan | Loan | 4.00% | 3/8/2018 | \$ 4,438,139 | 4,473,061 | 4,443,687 |
| Delphi Corporation | Electronics/Electric | Tranche A Term Loan | Loan | | | | | |
| | | Retired 03/01/2013 | Loan | 4.25% | 3/31/2016 | \$ 1,683,357 | 1,685,403 | 1,682,650 |
| Digitalglobe, Inc. | Ecological Services and Equipment | Term Loan | Loan | | | | | |
| | | | | 0.00% | 1/31/2020 | \$ 250,000 | 250,000 | 250,783 |
| DS Waters of America, Inc. | Beverage and Tobacco | Term Loan (First Lien) | Loan | 10.50% | 8/29/2017 | \$ 2,977,500 | 2,928,511 | 3,037,050 |
| Dunkin' Brands, Inc. | Food Services | Term B-3 Loan | Loan | 0.00% | 2/14/2020 | \$ 4,000,000 | 3,990,000 | 3,990,000 |
| DynCorp International Inc. | Aerospace and Defense | Term Loan | Loan | 6.25% | 7/7/2016 | \$ 574,161 | 567,732 | 577,606 |
| Education Management LLC | Leisure | Tranche C-2 Term Loan | Loan | 4.31% | 6/1/2016 | \$ 3,925,006 | 3,727,372 | 3,263,878 |

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|---|-----------------------------------|--|------|-------|------------|--------------|-----------|-----------|
| eInstruction Corporation | Goods/Activities/Movies | Initial Term Loan | Loan | 0.00% | 7/2/2013 | \$ 2,997,722 | 2,931,236 | 899,317 |
| Electrical Components International, Inc. | Electronics/Electric | Synthetic Revolving Loan | Loan | 6.75% | 2/4/2016 | \$ 117,647 | 116,611 | 117,647 |
| Electrical Components International, Inc. | Electronics/Electric | Term Loan | Loan | 6.75% | 2/4/2017 | \$ 1,786,475 | 1,768,892 | 1,786,475 |
| Evergreen Acqco 1 LP | Retailers (Except Food and Drugs) | New Term Loan | Loan | | | | | |
| | | | | 5.00% | 7/9/2019 | \$ 497,503 | 492,828 | 501,702 |
| Federal-Mogul Corporation | Automotive | Tranche B Term Loan | Loan | 2.14% | 12/29/2014 | \$ 2,589,036 | 2,498,894 | 2,467,351 |
| Federal-Mogul Corporation | Automotive | Tranche C Term Loan | Loan | 2.14% | 12/28/2015 | \$ 1,320,937 | 1,264,234 | 1,258,853 |
| First Data Corporation | Financial Intermediaries | 2017 Dollar Term Loan | Loan | 5.20% | 3/24/2017 | \$ 2,111,028 | 2,027,434 | 2,111,914 |
| First Data Corporation | Financial Intermediaries | 2018 Dollar Term Loan | Loan | 4.20% | 3/23/2018 | \$ 2,290,451 | 2,216,829 | 2,261,591 |
| Freescall Semiconductor, Inc. | Electronics/Electric | Tranche B-1 Term Loan | Loan | | | | | |
| | | Retired 03/01/2013 | Loan | 4.45% | 12/1/2016 | \$ 2,534,348 | 2,450,139 | 2,535,945 |
| FTD Group, Inc. | Retailers (Except Food and Drugs) | Initial Term Loan | Loan | | | | | |
| | | | | 4.75% | 6/11/2018 | \$ 3,715,723 | 3,683,533 | 3,715,723 |
| Generac Power Systems, Inc. | Industrial Equipment | Term Loan | Loan | 6.25% | 5/30/2018 | \$ 906,111 | 890,154 | 923,590 |
| General Nutrition Centers, Inc. | Retailers (Except Food and Drugs) | Amended Tranche B Term Loan | Loan | | | | | |
| | | | | 3.75% | 3/2/2018 | \$ 4,746,591 | 4,757,841 | 4,774,548 |
| Global Tel*Link Corporation | Business Equipment and Services | Replacement Term Loan | Loan | | | | | |
| | | | | 6.00% | 12/14/2017 | \$ 1,964,912 | 1,960,077 | 1,967,368 |
| Goodyear Tire & Rubber Company, The | Chemicals/Plastics | Loan (Second Lien) | Loan | 4.75% | 4/30/2019 | \$ 4,000,000 | 3,929,629 | 4,015,000 |
| Grifols Inc. | Drugs | New U.S. Tranche B Term Loan | Loan | | | | | |
| | | | | 4.25% | 6/1/2017 | \$ 3,465,982 | 3,457,357 | 3,481,371 |
| Grosvenor Capital Management Holdings, LLLP | Brokers/Dealers/Investment Houses | Tranche C Term Loan | Loan | | | | | |
| | | | | 4.25% | 12/5/2016 | \$ 3,336,378 | 3,252,391 | 3,311,355 |
| Hanger Orthopedic Group, Inc. | Healthcare | Term C Loan | Loan | 4.00% | 12/1/2016 | \$ 3,910,667 | 3,920,277 | 3,925,332 |
| HCA Inc. | Healthcare | Tranche B-3 Term Loan | Loan | 3.45% | 5/1/2018 | \$ 5,734,690 | 5,440,293 | 5,764,912 |
| Health Management Associates, Inc. | Healthcare | Term B Loan | Loan | 4.50% | 11/16/2018 | \$ 2,970,000 | 2,945,366 | 2,993,344 |
| Hertz Corporation, The | Automotive | Tranche B-1 Term Loan | Loan | 0.00% | 3/11/2018 | \$ 3,000,000 | 3,045,000 | 3,045,000 |
| HIBU PLC (fka Yell Group PLC) | Business Equipment and Services | Facility B1 - YB (USA) LLC (11/2009) | Loan | | | | | |
| | | | | 3.95% | 7/31/2014 | \$ 3,030,606 | 2,983,167 | 3,300,356 |
| HMH Holdings (Delaware) Inc. | Conglomerate | Term Loan (Exit Facility) | Loan | 7.25% | 5/22/2018 | \$ 992,500 | 974,925 | 997,463 |
| Hologic, Inc. | Healthcare | Tranche A Term Loan | Loan | 3.20% | 8/1/2017 | \$ 2,437,500 | 2,432,069 | 2,439,328 |
| Hunter Defense Technologies, Inc. | Aerospace and Defense | Term Loan | Loan | 3.54% | 8/22/2014 | \$ 3,679,939 | 3,647,610 | 3,385,544 |
| Huntsman International LLC | Chemicals/Plastics | Extended Term B Loan | Loan | 2.75% | 4/19/2017 | \$ 3,920,000 | 3,883,690 | 3,920,000 |
| Infor (US), Inc. ((fka Lawson Software Inc.) | Business Equipment and Services | Tranche B-2 Term Loan | Loan | | | | | |
| | | | | 5.25% | 4/5/2018 | \$ 1,990,013 | 1,971,642 | 2,011,166 |
| Inventiv Health, Inc. (fka Ventive Health, Inc) | Conglomerate | Consolidated Term Loan | Loan | | | | | |
| | | | | 7.50% | 8/4/2016 | \$ 492,090 | 492,090 | 484,093 |
| J. Crew Group, Inc. | Retailers (Except Food and Drugs) | Term B-1 Loan | Loan | | | | | |
| | | | | 4.00% | 3/7/2018 | \$ 982,500 | 982,500 | 982,726 |
| JFB Firth Rixson Inc. | Industrial Equipment | 2013 Replacement Dollar Term Facility Loan | Loan | | | | | |
| | | | | 4.25% | 6/30/2017 | \$ 2,590,213 | 2,577,375 | 2,598,838 |
| Kalispel Tribal Economic Authority | Lodging and Casinos | Term Loan | Loan | 7.50% | 2/24/2017 | \$ 3,625,323 | 3,577,074 | 3,634,387 |
| Kinetic Concepts, Inc. | Healthcare | Dollar Term C-1 Loan | Loan | 5.50% | 5/4/2018 | \$ 495,000 | 478,661 | 501,034 |
| Kronos Worldwide, Inc. | Chemicals/Plastics | Initial Term Loan | Loan | 7.00% | 6/13/2018 | \$ 500,000 | 500,000 | 504,065 |
| MetroPCS Wireless, Inc. | Telecommunications | Tranche B-2 Term Loan | Loan | 4.07% | 11/3/2016 | \$ 2,489,192 | 2,491,685 | 2,495,938 |
| Michaels Stores, Inc. | Retailers (Except Food and Drugs) | Term B Loan | Loan | | | | | |
| | | | | 3.75% | 1/28/2020 | \$ 500,000 | 500,000 | 501,110 |
| Microsemi Corporation | Electronics/Electric | Term Loan | Loan | 3.75% | 2/20/2020 | \$ 2,688,796 | 2,682,872 | 2,697,212 |
| National CineMedia, LLC | Leisure | Term Loan | Loan | | | | | |
| | | | | 3.46% | 11/26/2019 | \$ 1,086,207 | 1,050,910 | 1,089,607 |
| Newsday, LLC | Publishing | Term Loan | Loan | 3.70% | 10/12/2016 | \$ 3,000,000 | 2,996,317 | 2,992,500 |
| Novelis, Inc. | Conglomerate | Term B-2 Loan | Loan | 4.00% | 3/10/2017 | \$ 987,500 | 968,539 | 988,734 |
| Novelis, Inc. | Conglomerate | Term Loan | Loan | 4.00% | 3/10/2017 | \$ 3,920,009 | 3,946,297 | 3,924,909 |
| NPC International, Inc. | Food Services | Term Loan | Loan | 4.50% | 12/28/2018 | \$ 490,833 | 495,128 | 495,128 |
| NRG Energy, Inc. | Utilities | Term Loan | Loan | 3.25% | 7/1/2018 | \$ 3,940,000 | 3,910,795 | 3,958,557 |
| NuSil Technology LLC. | Chemicals/Plastics | Term Loan | Loan | 5.00% | 4/7/2017 | \$ 820,339 | 820,339 | 824,695 |
| OEP Pearl Dutch Acquisition B.V. On Assignment, Inc. | Chemicals/Plastics | Initial BV Term Loan | Loan | 6.50% | 3/30/2018 | \$ 148,875 | 146,330 | 149,992 |
| | Business Equipment and Services | Initial Term B Loan | Loan | | | | | |
| | | | | 5.00% | 5/15/2019 | \$ 2,413,048 | 2,399,166 | 2,434,114 |
| Onex Carestream Finance LP | Healthcare | Term Loan | Loan | 5.00% | 2/25/2017 | \$ 4,909,816 | 4,893,453 | 4,916,739 |
| OpenLink International, Inc. | Business Equipment and Services | Initial Term Loan | Loan | | | | | |
| | | | | 7.75% | 10/30/2017 | \$ 990,000 | 974,594 | 988,763 |
| P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.) | Food/Drug Retailers | Term Borrowing | Loan | | | | | |
| | | | | 5.25% | 6/22/2019 | \$ 997,500 | 988,412 | 1,007,475 |
| PATS Aircraft, LLC | Aerospace and Defense | Term Loan | Loan | 8.50% | 10/6/2016 | \$ 357,331 | 239,023 | 276,932 |
| Penn National Gaming, Inc. | Lodging and Casinos | Term A Facility | Loan | 1.72% | 7/14/2016 | \$ 2,775,888 | 2,719,125 | 2,776,748 |
| Penn National Gaming, Inc. | Lodging and Casinos | Term B Facility | Loan | 3.75% | 7/16/2018 | \$ 985,013 | 983,123 | 988,431 |
| PetCo Animal Supplies, Inc. | Retailers (Except Food and Drugs) | New Loans | Loan | | | | | |
| | | | | 4.00% | 11/24/2017 | \$ 1,496,173 | 1,494,329 | 1,501,784 |
| Pharmaceutical Product Development, Inc. (Jaguar Holdings, LLC) | Conglomerate | 2013 Term Loan | Loan | | | | | |
| | | | | 4.25% | 12/5/2018 | \$ 1,980,000 | 1,950,704 | 1,989,583 |
| Physician Oncology Services, LP | Healthcare | Delayed Draw Term Loan | Loan | 7.75% | 1/31/2017 | \$ 51,020 | 50,682 | 50,765 |
| Physician Oncology Services, LP | Healthcare | Effective Date Term Loan | Loan | 7.75% | 1/31/2017 | \$ 419,961 | 417,178 | 417,861 |
| Pinnacle Foods Finance LLC | Food Products | Extended Initial Term Loan | Loan | | | | | |
| | | | | 3.70% | 10/2/2016 | \$ 5,726,579 | 5,491,534 | 5,761,168 |
| Preferred Proppants, LLC | Nonferrous Metals/Minerals | Term B Loan | Loan | 7.50% | 12/15/2016 | \$ 1,980,000 | 1,949,170 | 1,841,400 |
| Prestige Brands, Inc. | Drugs | Term B-1 Loan | Loan | 3.76% | 1/31/2019 | \$ 679,545 | 669,390 | 683,507 |

| | | | | | | | | |
|-------------------------------|----------------------|---------------|------|-------|----------|--------------|-----------|-----------|
| Pro Mach, Inc. | Industrial Equipment | Term Loan | Loan | 5.00% | 7/6/2017 | \$ 1,956,155 | 1,941,853 | 1,961,045 |
| Quintiles Transnational Corp. | Conglomerate | Term B-2 Loan | Loan | 4.50% | 6/8/2018 | \$ 3,681,541 | 3,653,803 | 3,716,810 |

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|--|-----------------------------------|--|------|--------|------------|----------------|----------------|-----------|
| Ranpak Corp. | Food/Drug Retailers | USD Term Loan (First Lien) | Loan | 4.75% | 4/20/2017 | \$ 2,396,012 | 2,387,700 | 2,384,032 |
| Rexnord LLC/RBS Global, Inc. | Industrial Equipment | Term B Loan Refinancing | Loan | 4.50% | 4/1/2018 | \$ 1,995,000 | 1,995,000 | 2,005,454 |
| Reynolds Group Holdings Inc. | Industrial Equipment | U.S. Term Loan | Loan | 4.75% | 9/28/2018 | \$ 1,995,000 | 1,995,000 | 2,017,244 |
| Rocket Software, Inc. | Business Equipment and Services | Term Loan (First Lien) | Loan | 5.75% | 2/8/2018 | \$ 1,980,000 | 1,947,152 | 1,986,197 |
| Roundy's Supermarkets, Inc. | Food/Drug Retailers | Tranche B Term Loan | Loan | 5.75% | 2/13/2019 | \$ 992,500 | 979,782 | 937,297 |
| Rovi Solutions Corporation / Rovi Guides, Inc. | Electronics/Electric | Tranche A-2 Loan | Loan | 2.46% | 3/29/2017 | \$ 1,860,226 | 1,843,739 | 1,855,576 |
| Rovi Solutions Corporation / Rovi Guides, Inc. | Electronics/Electric | Tranche B-2 Loan | Loan | 4.00% | 3/29/2019 | \$ 1,384,706 | 1,378,679 | 1,389,899 |
| Royal Adhesives and Sealants, LLC | Chemicals/Plastics | Term A Loan | Loan | 7.25% | 11/29/2015 | \$ 4,498,210 | 4,459,450 | 4,432,399 |
| RPI Finance Trust | Drugs | 6.75 Year Term Loan(2012) | Loan | 3.50% | 5/9/2018 | \$ 5,398,833 | 5,373,794 | 5,449,474 |
| Scientific Games International Inc. | Electronics/Electric | Tranche B-1 Term Loan | Loan | 3.21% | 6/30/2015 | \$ 1,977,810 | 1,965,672 | 1,985,226 |
| Scitor Corporation | Business Equipment and Services | Term Loan | Loan | 5.00% | 2/15/2017 | \$ 463,977 | 462,444 | 460,692 |
| Securus Technologies Holdings, Inc (fka Securus Technologies, Inc.) | Telecommunications | Tranche 2 Term Loan (First Lien) | Loan | 6.50% | 5/31/2017 | \$ 1,985,000 | 1,967,961 | 1,975,075 |
| Sensata Technology BV/Sensata Technology Finance Company, LLC | Electronics/Electric | Term Loan | Loan | 3.75% | 5/12/2018 | \$ 2,969,849 | 2,969,849 | 2,986,540 |
| Sensus USA Inc. (fka Sensus Metering Systems) | Utilities | Term Loan (First Lien) | Loan | 4.75% | 5/9/2017 | \$ 1,965,000 | 1,958,111 | 1,961,070 |
| ServiceMaster Company, The | Conglomerate | Tranche B Term Loan | Loan | 4.45% | 1/31/2017 | \$ 2,851,387 | 2,861,398 | 2,857,089 |
| SI Organization, Inc., The | Aerospace and Defense | New Tranche B Term Loan | Loan | 4.50% | 11/22/2016 | \$ 3,920,000 | 3,895,621 | 3,906,946 |
| Sonneborn, LLC | Chemicals/Plastics | Initial US Term Loan | Loan | 6.50% | 3/30/2018 | \$ 843,625 | 829,202 | 849,952 |
| Sophia, L.P. | Electronics/Electric | Term B Loan | Loan | 4.50% | 7/19/2018 | \$ 969,244 | 954,866 | 976,310 |
| SRA International Inc. | Aerospace and Defense | Term Loan | Loan | 6.50% | 7/20/2018 | \$ 3,268,571 | 3,165,384 | 3,154,171 |
| SRAM, LLC | Industrial Equipment | Term Loan (First Lien) | Loan | 4.77% | 6/7/2018 | \$ 3,441,181 | 3,411,986 | 3,458,386 |
| SS&C Technologies, Inc., /Sunshine Acquisition II, Inc. | Business Equipment and Services | Funded Term B-1 Loan | Loan | 5.00% | 6/7/2019 | \$ 811,071 | 803,796 | 817,138 |
| SS&C Technologies, Inc., /Sunshine Acquisition II, Inc. | Business Equipment and Services | Funded Term B-2 Loan | Loan | 5.00% | 6/7/2019 | \$ 83,904 | 83,151 | 84,531 |
| SunCoke Energy, Inc. | Nonferrous Metals/Minerals | Tranche B Term Loan | Loan | 4.00% | 7/26/2018 | \$ 1,367,311 | 1,357,359 | 1,370,729 |
| SunGard Data Systems Inc (Solar Capital Corp.) | Conglomerate | Tranche B U.S. Term Loan | Loan | 3.85% | 2/28/2016 | \$ 4,253,748 | 4,184,167 | 4,260,086 |
| SunGard Data Systems Inc (Solar Capital Corp.) | Conglomerate | Tranche C Term Loan | Loan | 3.95% | 2/28/2017 | \$ 497,687 | 493,012 | 500,544 |
| SuperMedia Inc. (fka Idearc Inc.) | Publishing | Loan | Loan | 11.00% | 12/31/2015 | \$ 289,811 | 281,918 | 214,875 |
| Syniverse Holdings, Inc. | Telecommunications | Initial Term Loan | Loan | 5.00% | 4/23/2019 | \$ 497,500 | 493,115 | 500,609 |
| Tamincio Global Chemical Corporation | Chemicals/Plastics | Tranche B-2 Dollar Term Loan | Loan | 4.25% | 2/15/2019 | \$ 1,488,750 | 1,478,991 | 1,498,859 |
| Team Health, Inc. | Healthcare | Tranche B Term Loan | Loan | 3.75% | 6/29/2018 | \$ 4,432,500 | 4,415,534 | 4,432,500 |
| TECTUM HOLDINGS INC | Industrial Equipment | Term Loan | Loan | 7.50% | 12/3/2015 | \$ 4,000,000 | 3,981,089 | 3,980,000 |
| Texas Competitive Electric Holdings Company, LLC (TXU) | Utilities | 2014 Term Loan (Non-Extending) | Loan | 3.73% | 10/10/2014 | \$ 5,580,862 | 5,527,535 | 4,012,249 |
| Tomkins, LLC / Tomkins, Inc. (f/k/a Pinafore, LLC / Pinafore, Inc.) | Conglomerate | Term B-2 Loan | Loan | 3.75% | 9/29/2016 | \$ 2,431,854 | 2,437,744 | 2,450,093 |
| TransDigm Inc. | Aerospace and Defense | Tranche C Term Loan | Loan | 3.75% | 2/28/2020 | \$ 4,945,974 | 4,955,789 | 4,955,587 |
| Tricobra Inc. (fka Kranson Industries, Inc.) | Containers/Glass Products | Term Loan | Loan | 5.50% | 5/3/2018 | \$ 1,990,000 | 1,981,374 | 2,008,666 |
| Truven Health Analytics Inc. (fka Thomson Reuters (Healthcare) Inc.) | Healthcare | New Tranche B Term Loan | Loan | 5.75% | 6/6/2019 | \$ 497,500 | 488,158 | 501,853 |
| Tube City IMS Corporation | Steel | Term Loan | Loan | 5.75% | 3/20/2019 | \$ 992,500 | 983,864 | 1,001,184 |
| U.S. Security Associates Holdings, Inc. | Business Equipment and Services | Delayed Draw Term Loan | Loan | 6.00% | 7/28/2017 | \$ 161,778 | 160,586 | 162,688 |
| U.S. Security Associates Holdings, Inc. | Business Equipment and Services | Term Loan B | Loan | 6.00% | 7/28/2017 | \$ 123,747 | 123,243 | 124,444 |
| U.S. Security Associates Holdings, Inc. | Business Equipment and Services | Term Loan B | Loan | 6.00% | 7/28/2017 | \$ 826,540 | 820,452 | 831,193 |
| U.S. Silica Company | Nonferrous Metals/Minerals | Loan | Loan | 4.75% | 6/8/2017 | \$ 1,970,000 | 1,962,974 | 1,974,925 |
| U.S. Xpress Enterprises, Inc. | Industrial Equipment | Extended Term Loan | Loan | 9.00% | 11/13/2016 | \$ 2,913,628 | 2,858,339 | 2,906,344 |
| United Surgical Partners International, Inc. | Healthcare | New Tranche B Term Loan | Loan | 6.00% | 4/3/2019 | \$ 2,481,281 | 2,448,808 | 2,486,715 |
| Univar Inc. | Chemicals/Plastics | Term B Loan | Loan | 5.00% | 6/30/2017 | \$ 3,924,924 | 3,924,007 | 3,902,670 |
| Univision Communications Inc. | Telecommunications | 2013 Converted Extended First-Lien Term Loan | Loan | 4.75% | 3/1/2020 | \$ 3,000,000 | 2,981,257 | 3,000,870 |
| UPC Financing Partnership | Broadcast Radio and Television | Facility AF | Loan | 4.00% | 1/31/2021 | \$ 1,000,000 | 970,954 | 1,010,000 |
| Valeant Pharmaceuticals International, Inc. | Drugs | Series D-1 Tranche B Term Loan | Loan | 3.50% | 2/13/2019 | \$ 2,985,000 | 2,972,608 | 3,006,462 |
| Vantiv, LLC (fka Fifth Third Processing Solutions, LLC) | Financial Intermediaries | Tranche B Term Loan | Loan | 3.75% | 3/27/2019 | \$ 1,063,393 | 1,058,765 | 1,065,520 |
| Verint Systems Inc. | Business Equipment and Services | Term Loan 2011 | Loan | 4.50% | 10/27/2017 | \$ 1,920,000 | 1,913,087 | 1,921,920 |
| Vertafore, Inc. | Business Equipment and Services | Term Loan (First Lien) | Loan | 5.25% | 7/29/2016 | \$ 2,984,781 | 2,984,781 | 3,018,360 |
| Visant Corporation (fka Jostens) | Leisure Goods/Activities/Movies | Tranche B Term Loan (2011) | Loan | 5.25% | 12/22/2016 | \$ 3,696,942 | 3,696,942 | 3,518,269 |
| Washington Inventory Service | Business Equipment and Services | U.S. Term Loan (First Lien) | Loan | 5.75% | 12/20/2018 | \$ 2,000,000 | 2,029,513 | 2,007,500 |
| Weight Watchers International, Inc. | Food Products | Term D Loan | Loan | 2.56% | 6/30/2016 | \$ 2,700,529 | 2,667,383 | 2,701,879 |
| Wendy's International, Inc | Food Services | Term Loan | Loan | 4.75% | 5/15/2019 | \$ 997,500 | 988,532 | 1,006,098 |
| West Corporation | Telecommunications | Term B-8 Loan | Loan | 4.25% | 6/30/2018 | \$ 2,971,535 | 3,023,298 | 2,978,964 |
| Wolverine World Wide, Inc. | Clothing/Textiles | Tranche B Term Loan | Loan | 4.00% | 10/9/2019 | \$ 854,821 | 846,633 | 861,233 |
| Yankee Candle Company, Inc., The | Retailers (Except Food and Drugs) | Initial Term Loan | Loan | 5.25% | 4/2/2019 | \$ 2,256,466 | 2,236,833 | 2,268,876 |
| BABSN 2007-1A | Financial Intermediaries | Floating - 01/2021 - D1 - 05617AA9 | ABS | 3.55% | 1/18/2021 | \$ 1,500,000 | 1,258,888 | 1,050,000 |
| GALE 2007-3A | Financial Intermediaries | Floating - 04/2021 - E - 363205AA3 | ABS | 3.80% | 4/19/2021 | \$ 4,000,000 | 3,386,571 | 2,800,000 |
| KATO 2006-9A | Financial Intermediaries | Floating - 01/2019 - B2L - 48601AA9 | ABS | 3.80% | 1/25/2019 | \$ 5,000,000 | 4,339,337 | 3,500,000 |
| STCLO 2007-6A | Financial Intermediaries | Floating - 04/2021 - D- 86176YAG7 | ABS | 3.90% | 4/17/2021 | \$ 5,000,000 | 4,054,241 | 3,500,000 |
| | | | | | | \$ 379,843,341 | \$ 374,419,979 | |

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Note 5. Agreements

On July 30, 2010, the Company entered into an investment advisory and management agreement (the "Management Agreement") with our Manager. The initial term of the Management Agreement was 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. On July 15, 2013, our board of directors approved the renewal of the Management Agreement for an additional one-year term. Pursuant to the Management Agreement, our Manager 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 Manager 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 Manager a management 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 gross 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 20.0% of our pre-incentive fee net investment income, expressed as a rate of return on the value of our 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, subject to a "catch-up" provision. Under this provision, in any fiscal quarter, our Manager receives no incentive fee unless our pre-incentive fee net investment income exceeds the hurdle rate of 1.875%. Our Manager will receive 100.0% of pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than or equal to 2.344% in any fiscal quarter (9.376% annualized); and 20.0% of the amount of the our pre-incentive fee net investment income, if any, that exceeds 2.344% in any fiscal quarter (9.376% annualized).

The second part of the incentive fee is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Management Agreement) and equals 20.0% of our "incentive fee capital gains," which equals our realized capital gains on a cumulative basis from May 31, 2010 through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee. Importantly, the capital gains portion of the incentive fee is based on realized gains and realized and unrealized losses from May 31, 2010. Therefore, realized and unrealized losses incurred prior to such time will not be taken into account when calculating the capital gains portion of the incentive fee, and our Manager will be entitled to 20.0% of incentive fee capital gains that arise after May 31, 2010. In addition, for the purpose of the "incentive fee capital gains" calculations, the cost basis for computing realized gains and losses on investments held by us as of May 31, 2010 will equal the fair value of such investments as of such date.

For the three months ended August 31, 2013 and 2012 we incurred \$0.8 million and \$0.5 million in base management fees, respectively. For the three months ended August 31, 2013 and 2012, we accrued \$0.1 million, and \$0.3 million in incentive fees related to pre-incentive fee net investment income. For the three months ended August 31, 2013 there was a reduction of \$0.2 million in incentive management fees related to capital gains. For the three months ended August 31 2012, we accrued \$0.6 million in incentive management fees related to capital gains. For the six months ended August 31, 2013 and 2012 we incurred \$1.5 million and \$1.0 million in base management fees, respectively. For the six months ended August 31, 2013 and 2012, we accrued \$0.8 million, and \$0.3 million in incentive fees related to pre-incentive fee net investment income. For the six months ended August 31, 2013 we did not accrue incentive management fees related to capital gains. For the six months ended August 31, 2012, we accrued \$1.0 million in incentive management fees related to capital gains. The accrual is calculated using both realized and unrealized capital gains for the period. The actual incentive fee related to capital gains will be determined and payable in arrears at the end of the fiscal year and will include only realized capital gains for the period. As of August 31, 2013, \$0.8 million of base management fees and \$4.7 million of incentive fees were accrued and included in management and incentive fees payable in the accompanying consolidated statements of assets and liabilities. As of February 28, 2013, \$0.6 million of base management fees and \$3.9 million of incentive fees were accrued and included in management and incentive fees payable in the accompanying consolidated statements of assets and liabilities.

On July 30, 2010, the Company entered into a separate administration agreement (the "Administration Agreement") with our Manager, pursuant to which our Manager, 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. The initial term of the Administration Agreement was 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. The amount of expenses payable or reimbursable thereunder by the Company was capped at \$1.0 million for the initial two year term of the administration agreement. On July 15, 2013, our board of directors approved the renewal of the Administration Agreement for an

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additional one-year term and determined to maintain the cap on the payment or reimbursement of expenses by the Company thereunder to \$1.0 million for the additional one-year term.

For the three months ended August 31, 2013 and 2012, we recognized \$0.3 million and \$0.3 million in administrator expenses for the periods, pertaining to bookkeeping, record keeping and other administrative services provided to us in addition to our allocable portion of rent and other overhead related expenses, respectively. For the six months ended August 31, 2013 and 2012, we recognized \$0.5 million and \$0.5 million in administrator expenses for the periods, pertaining to bookkeeping, record keeping and other administrative services provided to us in addition to our allocable portion of rent and other overhead related expenses, respectively. As of August 31, 2013, \$0.3 million of administrator expenses were accrued and included in due to manager in the accompanying consolidated statements of assets and liabilities.

Note 6. Borrowings

Credit Facility

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 200.0% 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 entered into a \$100.0 million revolving securitized credit facility (the "Revolving Facility"). 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. In December 2007, we consolidated the Facilities by using a draw under the Revolving Facility to repay the Term Facility. In response to the marketwide decline in financial asset prices, which negatively affected the value of our portfolio, we terminated the revolving period of the Revolving Facility effective January 14, 2009 and commenced a two-year amortization period during which all principal proceeds from the collateral was used to repay outstanding borrowings. A significant percentage of our total assets had been pledged under the Revolving Facility to secure our obligations thereunder. Under the Revolving Facility, funds were borrowed from or through certain lenders and interest was payable monthly at the greater of the commercial paper

rate and our lender's prime rate plus 4.00% plus a default rate of 2.00% or, if the commercial paper market was unavailable, the greater of the prevailing LIBOR rates and our lender's prime rate plus 6.00% plus a default rate of 3.00%.

In March 2009, we amended the Revolving Facility to increase the portion of the portfolio that could be invested in "CCC" rated investments in return for an increased interest rate and expedited amortization. As a result of these transactions, we expected to have additional cushion under our borrowing base under the Revolving Facility that would allow us to better manage our capital in times of declining asset prices and market dislocation.

On July 30, 2009, we exceeded the permissible borrowing limit under the Revolving Facility for 30 consecutive days, resulting in an event of default under the Revolving Facility. As a result of this event of default, our lender had the right to accelerate repayment of the outstanding indebtedness under the Revolving Facility and to foreclose and liquidate the collateral pledged thereunder. Acceleration of the outstanding indebtedness and/or liquidation of the collateral could have had a material adverse effect on our liquidity, financial condition and operations.

On July 30, 2010, we used the net proceeds from (i) the stock purchase transaction and (ii) a portion of the funds available to us under the \$45.0 million senior secured revolving credit facility (the "Replacement Facility") with Madison Capital Funding LLC, in each case, described in "Note 13. Recapitalization Transaction" below, to pay the full amount of principal and accrued interest, including default interest, outstanding under the Revolving Facility. As a result, the Revolving Facility was terminated in connection therewith. Substantially all of our total assets, other than those held by SBIC LP, have been pledged under the Replacement Facility to secure our obligations thereunder.

On February 24, 2012, we amended our senior secured revolving credit facility with Madison Capital Funding LLC to, among other things:

- expand the borrowing capacity under the credit facility from \$40.0 million to \$45.0 million;
- extend the period during which we may make and repay borrowings under the credit facility from July 30, 2013 to February 24, 2015 (the "Revolving Period"). The Revolving Period may be terminated at an earlier time upon the occurrence of an event of default by action of the lenders or automatically. All borrowings and other amounts payable under the credit facility are due and payable five years after the end of the Revolving Period; and

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- remove the condition that we may not acquire additional loan assets without the prior written consent of Madison Capital Funding LLC.

As of August 31, 2013, there were no outstanding borrowings under the Replacement Facility and the Company was in compliance with all of the limitations and requirements of the Replacement Facility. \$2.3 million of financing costs related to the Replacement Facility have been capitalized and are being amortized over the term of the facility. For the three months ended August 31, 2013 and 2012, we recorded \$0.1 million and \$0.5 million of interest expense, respectively. For the three months ended August 31, 2013 and 2012, we recorded \$0.1 million and \$0.1 million of amortization of deferred financing costs related to the Replacement Facility, respectively. The interest rates during the six months ended August 31, 2013 on the outstanding borrowings under the Replacement Facility were 7.50%. The interest rates during the three and six months ended August 31, 2012 on the outstanding borrowings under the Replacement Facility were 7.50% and 7.50% respectively. For the six months ended August 31, 2013 and 2012, we recorded \$0.6 million and \$1.1 million of interest expense, respectively. For the six months ended August 31, 2013 and 2012, we recorded \$0.2 million and \$0.2 million of amortization of deferred financing costs related to the Replacement Facility, respectively.

The Replacement Facility contains limitations as to how borrowed funds may be used, such as restrictions on industry concentrations, asset size, weighted average life, currency denomination and collateral interests. The Replacement Facility also includes certain requirements relating to portfolio performance, the violation of which could result in the limit of further advances and, in some cases, result in an event of default, allowing the lenders to accelerate repayment of amounts owed thereunder. The Replacement Facility has an eight year term, consisting of a three year period (the "Revolving Period"), under which the Company may make and repay borrowings, and a final maturity five years from the end of the Revolving Period. Availability on the Replacement Facility will be subject to a borrowing base calculation, based on, among other things, applicable advance rates (which vary from 50.0% to 75.0% of par or fair value depending on the type of loan asset) and the value of certain "eligible" loan assets included as part of the Borrowing Base. Funds may be borrowed at the greater of the prevailing LIBOR rate or 2.00%, plus an applicable margin of 5.50%. At the Company's option, funds may be borrowed based on an alternative base rate, which in no event will be less than 3.00%, and the applicable margin over such alternative base rate is 4.50%. In addition, the Company will pay the lenders a commitment fee of 0.75% per year on the unused amount of the Replacement Facility for the duration of the Revolving Period.

Our borrowing base under the Replacement Facility was \$51.1 million subject to the Replacement Facility cap of \$45.0 million at August 31, 2013. For purposes of determining the borrowing base, most assets are assigned the values set forth in our most recent Annual Report on Form 10-K or Quarterly Report on Form 10-Q filed with the SEC. Accordingly, the August 31, 2013 borrowing base relies upon the valuations set forth in the Annual Report on Form 10-K for the year ended February 28, 2013. The valuations presented in this Quarterly Report on Form 10-Q will not be incorporated into the borrowing base until after this Quarterly Report on Form 10-Q is filed with the SEC.

SBA Debentures

SBIC LP is able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid in and is subject to customary regulatory requirements including but not limited to an examination by the SBA. As of August 31, 2013, we have funded SBIC LP with \$25.0 million of equity capital, and have \$40.0 million of SBA-guaranteed debentures outstanding. SBA debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of \$150.0 million, which is up to twice its potential regulatory capital.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18.0 million and have average annual fully taxed net income not exceeding \$6.0 million for the two most recent fiscal years. In addition, an SBIC must devote 25.0% of its investment activity to "smaller" concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding \$6.0 million and has average annual fully taxed net income not exceeding \$2.0 million for the two most recent fiscal

years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services.

SBIC LP is subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of an SBIC license does not assure that SBIC LP will receive SBA guaranteed

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debenture funding, which is dependent upon SBIC LP continuing to be in compliance with SBA regulations and policies. The SBA, as a creditor, will have a superior claim to SBIC LP's assets over our stockholders and debt holders in the event we liquidate SBIC LP or the SBA exercises its remedies under the SBA-guaranteed debentures issued by SBIC LP upon an event of default.

The Company received exemptive relief from the Securities and Exchange Commission to permit it to exclude the debt of SBIC LP guaranteed by the SBA from the definition of senior securities in the 200.0% asset coverage test under the 1940 Act. This allows the Company increased flexibility under the 200.0% asset coverage test by permitting it to borrow up to \$150.0 million more than it would otherwise be able to absent the receipt of this exemptive relief.

As of August 31, 2013, there was \$40.0 million outstanding of SBA debentures. The carrying amount of the amount outstanding of SBA debentures approximates its fair value. \$1.5 million of financing costs related to the SBA debentures have been capitalized and are being amortized over the term of the commitment and drawdown. For the three and six months ended August 31, 2013, the Company recorded \$0.3 million and \$0.6 million, respectively, of interest expense related to the SBA debentures. For the three and six months ended August 31, 2013, the Company recorded \$0.05 million and \$0.1 million, respectively, of amortization of deferred financing costs related to the SBA debentures. The weighted average interest rate during the six months ended August 31, 2013 on the outstanding borrowings of the SBA debentures was 2.90%. There were no outstanding SBA debentures at August 31, 2012.

Notes

On May 10, 2013, the Company issued \$42.0 million in aggregate principal amount of 7.50% fixed-rate notes due 2020 (the "Notes"). The Notes will mature on May 31, 2020, and may be redeemed in whole or in part at any time or from time to time at the Company's option on or after May 31, 2016. Interest will be payable quarterly beginning August 15, 2013.

On May 17, 2013, the Company closed an additional \$6.3 million in aggregate principal amount of the Notes, pursuant to the full exercise of the underwriters' option to purchase additional Notes.

As of August 31, 2013, the carrying amount and fair value of the Notes was \$48.3 million and \$48.3 million, respectively. The fair value of the Notes, which are publicly traded, is based upon closing market quotes as of the measurement date. As of August 31, 2013, \$2.5 million of financing costs related to the Notes have been capitalized and are being amortized over the term of the Notes. For the three and six months ended August 31, 2013, we recorded \$0.9 million and \$1.1 million, respectively, of interest expense and \$0.09 million and \$0.1 million, respectively, of amortization of deferred financing costs related to the Notes.

Note 7. Directors Fees

The independent directors receive an annual fee of \$40,000. They also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the Audit Committee receives an annual fee of \$5,000 and the chairman of each other committee receives an annual fee of \$2,000 for their additional services in these capacities. In addition, we have purchased directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors' fees in the form of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment. No compensation is paid to directors who are "interested persons" of the Company (as such term is defined in the 1940 Act). For the three months ended August 31, 2013 and 2012, we accrued \$0.05 million and \$0.05 million for directors' fees expense, respectively. For the six months ended August 31, 2013 and 2012, we accrued \$0.1 million and \$0.1 million for directors' fees expense, respectively. As of August 31, 2013 and February 28, 2013, \$0.05 million and \$0.05 million in directors' fees expense were unpaid and included in accounts payable and accrued expenses in the consolidated statements of assets and liabilities. As of August 31, 2013, we had not issued any common stock to our directors as compensation for their services.

Note 8. Stockholders' Equity

On May 16, 2006, GSC Group, Inc. capitalized the LLC, by contributing \$1,000 in exchange for 67 shares, constituting all of the issued and outstanding shares of the LLC.

On March 20, 2007, the Company issued 95,995.5 and 8,136.2 shares of common stock, priced at \$150.00 per share, to GSC Group and certain individual employees of GSC Group, respectively, in exchange for the general partnership interest and a limited partnership interest in GSC Partners CDO III GP, LP, collectively valued at \$15.6 million. At this time, the 6.7 shares owned by GSC Group in the LLC were exchanged for 6.7 shares of the Company.

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On March 28, 2007, the Company completed its IPO of 725,000 shares of common stock, priced at \$150.00 per share, before underwriting discounts and commissions. Total proceeds received from the IPO, net of \$7.1 million in underwriter's discount and commissions, and \$1.0 million in offering costs, were \$100.7 million.

On November 13, 2009, we declared a dividend of \$18.25 per share payable on December 31, 2009. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to \$2.1 million or \$2.50 per share. Based on shareholder elections, the dividend consisted of \$2.1 million in cash and 864,872.5 of newly issued shares of common stock.

On July 30, 2010, our Manager and its affiliates purchased 986,842 shares of common stock at \$15.20 per share. Total proceeds received from this sale were \$15.0 million. See “Note 13. Recapitalization Transaction.”

On August 12, 2010, we effected a one-for-ten reverse stock split of our outstanding common stock. As a result of the reverse stock split, every ten shares of our common stock were converted into one share of our common stock. Any fractional shares received as a result of the reverse stock split were redeemed for cash. The total cash payment in lieu of shares was \$230. Immediately after the reverse stock split, we had 2,680,842 shares of our common stock outstanding.

On November 12, 2010, we declared a dividend of \$4.40 per share payable on December 29, 2010. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to approximately \$1.2 million or \$0.44 per share. Based on shareholder elections, the dividend consisted of approximately \$1.2 million in cash and 596,235 shares of common stock.

On November 15, 2011, we declared a dividend of \$3.00 per share payable on December 30, 2011. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to approximately \$2.0 million or \$0.60 per share. Based on shareholder elections, the dividend consisted of approximately \$2.0 million in cash and 599,584 shares of common stock.

On November 9, 2012, the Company declared a dividend of \$4.25 per share payable on December 31, 2012. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to approximately \$3.3 million or \$0.85 per share. Based on shareholder elections, the dividend consisted of approximately \$3.3 million in cash and 853,455 shares of common stock.

Note 9. Earnings Per Share

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

The following information sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations for the three and six months ended August 31, 2013 and 2012 (dollars in thousands except share and per share amounts):

| Basic and diluted | For the three months ended | | For the six months ended | |
|---|----------------------------|-----------------|--------------------------|-----------------|
| | August 31, 2013 | August 31, 2012 | August 31, 2013 | August 31, 2012 |
| Net increase (decrease) in net assets from operations | \$ (41) | \$ 4,871 | \$ 3,759 | \$ 8,062 |
| Weighted average common shares outstanding | 4,730,116 | 3,876,661 | 4,730,116 | 3,876,661 |
| Earnings (loss) per common share-basic and diluted | \$ (0.01) | \$ 1.26 | 0.79 | \$ 2.08 |

Note 10. Dividend

The Company did not declare any dividend payments during the quarters ended August 31, 2013 and August 31, 2012.

Note 11. Financial Highlights

The following is a schedule of financial highlights for the three months ended August 31, 2013 and 2012:

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| | August 31, 2013 | August 31, 2012 |
|---|-----------------|-----------------|
| Per share data: | | |
| Net asset value at beginning of period | \$ 22.98 | \$ 25.12 |
| Net investment income(1) | 1.00 | 0.67 |
| Net realized and unrealized gains and (losses) on investments and derivatives | (0.21) | 1.41 |
| Net increase in net assets from operations | 0.79 | 2.08 |
| Net asset value at end of period | \$ 23.77 | \$ 27.20 |
| Net assets at end of period | \$ 112,445,315 | \$ 105,441,959 |
| Shares outstanding at end of period | 4,730,116 | 3,876,661 |
| Per share market value at end of period | \$ 18.31 | \$ 16.50 |
| Total return based on market value(2) | 7.58% | 3.90% |
| Total return based on net asset value(3) | 3.45% | 8.28% |
| Ratio/Supplemental data: | | |
| Ratio of net investment income to average, net assets(4) | 8.62% | 5.16% |
| Ratio of operating expenses to average net assets(4) | 5.73% | 5.22% |
| Ratio of incentive management fees to average net assets(4) | 1.42% | 2.59% |
| Ratio of debt related expenses to average net assets(4) | 4.97% | 2.55% |
| Ratio of total expenses to average net assets(4) | 12.11% | 10.37% |
| Portfolio turnover rate(5) | 32.41% | 13.66% |

- (1) Net investment income per share is calculated using the weighted average shares outstanding during the period.
- (2) Total investment return is calculated assuming a purchase of common shares at the current market value on the first day and a sale at the current market value on the last day of the periods reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's dividend reinvestment plan. Total investment return does not reflect brokerage commissions. Total investment returns covering less than a full period are not annualized.
- (3) Total investment return is calculated assuming a purchase of common shares at the current net asset value on the first day and a sale at the current net asset value on the last day of the periods reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.
- (4) Ratios are annualized.
- (5) Portfolio turnover rate is calculated using the lesser of year-to-date sales or year-to-date purchases over the average of the invested assets at fair value.

Note 12. Recapitalization Transaction

In July 2010, we consummated a recapitalization transaction that was necessitated by the fact that we had exceeded permissible borrowing limits under the Revolving Facility in July 2009, which resulted in an event of default under the Revolving Facility. As a result of the event of default under the Revolving Facility, the lender had the right to accelerate repayment of the outstanding indebtedness under the Revolving Facility and to foreclose and liquidate the collateral pledged thereunder. We engaged the investment banking firm of Stifel, Nicolaus & Company to evaluate strategic transaction opportunities and consider alternatives for us in December 2008. On April 14, 2010, we entered into a stock purchase agreement with our Manager and certain of its affiliates and an assignment, assumption and novation agreement with our Manager, pursuant to which we assumed certain rights and obligations of our Manager under a debt commitment letter our Manager received from Madison Capital Funding LLC, indicating Madison Capital Funding's willingness to provide us with the Replacement Facility, subject to the satisfaction of certain terms and conditions. In addition, we and GSCP (NJ), L.P., our then external investment adviser, entered into a termination and release agreement, to be effective as of the closing of the transaction contemplated by the stock purchase agreement, pursuant to which GSCP (NJ), L.P., among other things, agreed to waive any and all accrued and unpaid deferred incentive management fees up to and as of the closing of the transaction contemplated by the stock purchase agreement but continued to be entitled to receive the base management fees earned through the date of the closing of the transaction contemplated by the stock purchase agreement.

On July 30, 2010, the transactions contemplated by the stock purchase agreement with our Manager and certain of its affiliates was completed, and included the following actions:

- the private sale of shares of our common stock for \$15.0 million in aggregate purchase price to our Manager and certain of its affiliates;
- the closing of the \$40.0 million Replacement Facility with Madison Capital Funding;

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- the execution of a registration rights agreement with the investors in the private sale transaction, pursuant to which we agreed to file a registration statement with the SEC to register for resale the shares of our common stock sold in the private sale transaction;
- the execution of a trademark license agreement with our Manager pursuant to which our Manager granted us a non-exclusive, royalty-free license to use the "Saratoga" name, for so long as our Manager or one of its affiliates remains our investment adviser;
- replacing GSCP (NJ), L.P. as our investment adviser and administrator with our Manager by executing an investment advisory and management agreement, which was approved by our stockholders, and an administration agreement with our Manager;
- the resignations of Robert F. Cummings, Jr. and Richard M. Hayden, both of whom are affiliates of GSCP (NJ) L.P., as members of the board of directors and the election of Christian L. Oberbeck and Richard A. Petrocelli, both of whom are affiliates of our Manager, as members of the board of directors;
- the resignation of all of our then existing executive officers and the appointment by our board of directors of Mr. Oberbeck as our chief executive officer and Mr. Petrocelli as our chief financial officer, secretary and chief compliance officer; and
- our name change from "GSC Investment Corp." to "Saratoga Investment Corp."

We used the net proceeds from the private sale transaction and a portion of the funds available to us under the Replacement Facility to pay the full amount of principal and accrued interest, including default interest, outstanding under Revolving Facility. The Revolving Facility with Deutsche Bank was terminated in connection with our payment of all amounts outstanding thereunder on July 30, 2010.

Note 13. Subsequent Events

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the consolidated financial statements as of and for the quarter ended August 31, 2013, except as disclosed below.

On October 1, 2013, the Saratoga CLO priced a refinancing of its notes. The refinanced Saratoga CLO has assets of \$300 million and will have a reinvestment period through October 2016. As a result of increased pricing on the notes and the smaller asset base, interest income and equity distributions in the future will be lower than historical amounts. Saratoga Investment Corp. will continue to own 100% of the subordinated notes and receive a 50 basis point management fee for the life of the Saratoga CLO. The refinancing is expected to close on October 17, 2013.

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 on Form 10-Q. 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 under Part I, Item 1A in our Annual Report on Form 10-K for the fiscal year ended February 28, 2013.

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 on Form 10-Q involve risks and uncertainties, including 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, a small business investment company and a regulated investment company;
- the adequacy of our cash resources and working capital;

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- 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 effectively administer our investments.

You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this Quarterly Report on Form 10-Q 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 on Form 10-Q.

OVERVIEW

We are a 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 objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We invest primarily in leveraged loans and mezzanine debt issued by private U.S. middle market companies, which we define as companies having EBITDA of between \$5 million and \$50 million, both through direct lending and through participation in loan syndicates. We may also invest up to 30.0% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, which may include securities of companies in bankruptcy, foreign debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds. We have elected and qualified to be treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code").

Corporate History and Recent Developments

We commenced operations, at the time known as GSC Investment Corp., on March 23, 2007 and completed an initial public offering of shares of common stock on March 28, 2007. Prior to July 30, 2010, we were externally managed and advised by GSCP (NJ), L.P., an entity affiliated with GSC Group, Inc. In connection with the consummation of a recapitalization transaction on July 30, 2010, we engaged Saratoga Investment Advisors ("SIA") to replace GSCP (NJ), L.P. as our investment adviser and changed our name to Saratoga Investment Corp.

As a result of the event of default under a revolving securitized credit facility with Deutsche Bank we previously had in place, in December 2008 we engaged the investment banking firm of Stifel, Nicolaus & Company to evaluate strategic transaction opportunities and consider alternatives for us. On April 14, 2010, we entered into a stock purchase agreement with Saratoga Investment Advisors and certain of its affiliates and an assignment, assumption and novation agreement with Saratoga Investment Advisors, pursuant to which we assumed certain rights and obligations of Saratoga Investment Advisors under a debt commitment letter Saratoga Investment Advisors received from Madison Capital Funding LLC, indicating Madison Capital Funding's willingness to provide us with a \$40.0 million senior secured revolving credit facility, subject to the satisfaction of certain terms and conditions. In addition, we and GSCP (NJ), L.P. entered into a termination and release agreement, to be effective as of the closing of the transaction contemplated by the stock purchase agreement, pursuant to which GSCP (NJ), L.P., among other things, agreed to waive any and all accrued and unpaid deferred incentive management fees up to and as of the closing of the transaction contemplated by the stock purchase agreement but continued to be entitled to receive the base management fees earned through the date of the closing of the transaction contemplated by the stock purchase agreement.

On July 30, 2010, the transactions contemplated by the stock purchase agreement with Saratoga Investment Advisors and certain of its affiliates were completed, and included the following actions:

- the private sale of 986,842 shares of our common stock for \$15.0 million in aggregate purchase price to Saratoga Investment Advisors and certain of its affiliates;
- the closing of the \$40.0 million senior secured revolving credit facility with Madison Capital Funding;

- the execution of a registration rights agreement with the investors in the private sale transaction, pursuant to which, among other things, we agreed to file a registration statement with the SEC to register for resale the shares of our common stock sold in the private sale transaction, including any shares of common stock issued or issuable upon any stock split, dividend or other distribution, recapitalization or similar event relating thereto, and to use commercially reasonable efforts to cause such registration statement to be declared effective within 90 days after the date on which the registration statement was initially filed with the SEC;
- the execution of a trademark license agreement with Saratoga Investment Advisors pursuant to which Saratoga Investment Advisors granted us a non-exclusive, royalty-free license to use the “Saratoga” name, for so long as Saratoga Investment Advisors or one of its affiliates remains our investment adviser; and

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- replacing GSCP (NJ), L.P. as our investment adviser and administrator with Saratoga Investment Advisors by executing an investment advisory and management agreement, which was approved by our stockholders, and an administration agreement with Saratoga Investment Advisors;
- the resignations of Robert F. Cummings, Jr. and Richard M. Hayden, both of whom are affiliates of GSCP (NJ) L.P., as members of the board of directors and the election of Christian L. Oberbeck and Richard A. Petrocelli, both of whom are affiliates of Saratoga Investment Advisors, as members of the board of directors;
- the resignation of all of our then existing executive officers and the appointment by our board of directors of Mr. Oberbeck as our chief executive officer and Mr. Petrocelli as our chief financial officer, secretary and chief compliance officer; and
- our name change from “GSC Investment Corp.” to “Saratoga Investment Corp.”

We used the net proceeds from the private sale transaction and a portion of the funds available to us under the \$40.0 million senior secured revolving credit facility with Madison Capital Funding to pay the full amount of principal and accrued interest, including default interest, outstanding under our revolving securitized credit facility with Deutsche Bank. The revolving securitized credit facility with Deutsche Bank was terminated in connection with our payment of all amounts outstanding thereunder on July 30, 2010.

On August 12, 2010, we effected a one-for-ten reverse stock split of our outstanding common stock. As a result of the reverse stock split, every ten shares of our common stock were converted into one share of our common stock. Any fractional shares received as a result of the reverse stock split were redeemed for cash. The total cash payment in lieu of shares was \$230. Immediately after the reverse stock split, we had 2,680,842 shares of our common stock outstanding.

In January 2011, we registered for public resale the 982,842 shares of our common stock issued to Saratoga Investment Advisors and certain of its affiliates.

Critical Accounting Policies

Basis of Presentation

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires management to make certain estimates and assumptions affecting amounts reported in the Company’s consolidated financial statements. We have identified investment valuation, revenue recognition and the recognition of capital gains incentive fee expense as our most critical accounting estimates. We continuously evaluate our estimates, including those related to the matters described below. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from those estimates under different assumptions or conditions. A discussion of our critical accounting policies follows.

Investment Valuation

The Company accounts for its investments at fair value in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures* (“ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC 820 requires the Company to assume that its investments are to be sold at the statement of assets and liabilities date in the principal market to independent market participants, or in the absence of a principal market, in the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact.

Investments for which market quotations are readily available are fair valued at such market quotations obtained from independent third party pricing services and market makers subject to any decision by our board of directors to approve 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 approved, in good faith, by our board of directors based on input from Saratoga Investment Advisers, the audit committee of our board of directors and 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 determining the fair value of our investments include the nature and realizable value of any collateral, the portfolio company’s ability to make payments, market yield trend analysis, 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 of Saratoga Investment Advisors and preliminary valuation conclusions are documented and discussed with our senior management; and
- An independent valuation firm engaged by our board of directors reviews approximately 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 the independent valuation firm at least annually.

In addition, all our investments are subject to the following valuation process:

- The audit committee of our board of directors reviews each preliminary valuation and Saratoga Investment Advisors and independent valuation firm (if applicable) will supplement the preliminary valuation to reflect any comments provided by the audit committee; and
- Our board of directors discusses the valuations and approves the fair value of each investment, in good faith, based on the input of Saratoga Investment Advisors, the independent valuation firm (to the extent applicable) and the audit committee of our board of directors.

Our investment in GSC Investment Corp. CLO 2007, Ltd. (“Saratoga CLO”) is carried at fair value, which is based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for equity interests in collateralized loan obligation funds similar to Saratoga CLO, when available, as determined by SIA and recommended to our board of directors. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for the valuation of our investment in Saratoga CLO. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated valuations. The assumptions are based on available market data and projections provided by third parties as well as management estimates. We use the output from the Intex models (i.e., the estimated cash flows) to perform a discounted cash flows analysis on expected future cash flows to determine a valuation for our investment in Saratoga CLO.

Revenue Recognition

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. Discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment 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 investments.

Loans are generally placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reserved when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as a reduction in principal depending upon management’s judgment regarding collectability. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management’s judgment, are likely to remain current, although we may make exceptions to this general rule if the loan has sufficient collateral value and is in the process of collection.

Interest income on our investment in Saratoga CLO is recorded using the effective interest method in accordance with the provisions of ASC Topic 325-40, *Investments-Other, Beneficial Interests in Securitized Financial Assets*, based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the investment from the date the estimated yield was changed.

Paid-in-Kind Interest

The Company holds debt investments in its portfolio that contain a payment-in-kind (“PIK”) interest provision. The PIK interest, which represents contractually deferred interest added to the investment balance that is generally due at maturity, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We stop accruing PIK interest if we do not expect the issuer to be able to pay all principal and interest when due.

Capital Gains Incentive Fee

The Company records an expense accrual relating to the capital gains incentive fee payable by the Company to its investment adviser when the unrealized gains on its investments exceed all realized capital losses on its investments given the fact that a capital gains incentive fee would be owed to the investment adviser if the Company were to liquidate its investment portfolio at such time. The actual incentive fee payable to the Company’s investment adviser related to capital gains will be determined and payable in arrears at the end of each fiscal year and will include only realized capital gains for the period.

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. We expect our debt investments, whether in the form of leveraged loans or mezzanine debt, 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 to be paid-in-kind (“PIK”). 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 or investment management services and possibly consulting

fees. Any such fees will be generated in connection with our investments and recognized as earned. We may also invest in preferred equity securities that pay dividends on a current basis.

On January 22, 2008, we entered into a collateral management agreement with Saratoga CLO, pursuant to which we act as its collateral manager and receive a senior collateral management fee of 0.10% and a subordinate collateral management fee of 0.40% of the outstanding principal amount of Saratoga CLO's assets, paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20.0% of excess cash flow to the extent the Saratoga CLO subordinated notes receive an internal rate of return equal to or greater than 12.0%.

We recognize interest income on our investment in the subordinated notes of Saratoga CLO using the effective interest method, based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the investment from the date the estimated yield was changed.

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 administrator expenses, including our allocable portion of our administrator's overhead. 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;
- 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;
- federal and state registration fees;
- all costs of registration and listing our common stock on any securities exchange;
- federal, state and local taxes;

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- independent directors' fees and expenses;
- costs of preparing and filing reports or other documents required by governmental bodies (including the SEC and the SBA);
- costs of any reports, proxy statements or other notices to common stockholders including printing costs;
- our fidelity bond, directors and officers errors and omissions liability insurance, and any other insurance premiums;
- direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs; and
- administration fees and all other expenses incurred by us or, if applicable, the administrator in connection with administering our business (including payments under the administration agreement based upon our allocable portion of the administrator's overhead in performing its obligations under an administration agreement, including rent and the allocable portion of the cost of our officers and their respective staffs (including travel expenses)).

To the extent that any of our leveraged 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

Corporate Debt Portfolio Overview

| | At August 31, 2013 | At February 28, 2013 |
|--------------------------|-----------------------|-------------------------|
| | (\$ in millions) | |
| Number of investments(1) | 54 | 44 |

| | | | | |
|---|----|--------------|----|-------------|
| Number of portfolio companies(1) | | 34 | | 28 |
| Average investment size(1) | \$ | 3.1 | \$ | 2.9 |
| Weighted average maturity(1) | | 4.5yrs | | 3.7yrs |
| Number of industries(1) | | 17 | | 15 |
| Average investment per portfolio company(1) | \$ | 4.9 | \$ | 4.6 |
| Non-performing or delinquent investments(1) | \$ | 0.4 | \$ | 6.7 |
| Fixed rate debt (% of interest bearing portfolio)(2) | \$ | 55.8(35.1)% | \$ | 53.4(43.9)% |
| Weighted average current coupon(2) | | 13.3% | | 12.6% |
| Floating rate debt (% of interest bearing portfolio)(2) | \$ | 103.0(64.9)% | \$ | 68.2(56.1)% |
| Weighted average current spread over LIBOR(2) | | 7.0% | | 7.5% |

(1) Excludes our investment in the subordinated notes of Saratoga CLO.

(2) Excludes our investment in the subordinated notes of Saratoga CLO and investments in common stocks.

During the three months ended August 31, 2013, we made \$54.9 million investments in new or existing portfolio companies and had \$29.6 million in aggregate amount of exits and repayments resulting in net investments of \$25.3 million for the period. During the three months ended August 31, 2012, we made \$14.9 million investments in new or existing portfolio companies and had \$10.0 million in aggregate amount of exits and repayments resulting in net investments of \$4.9 million for the period.

During the six months ended August 31, 2013, we made \$87.9 million investments in new or existing portfolio companies and had \$54.9 million in aggregate amount of exits and repayments resulting in net investments of \$33.0 million for the period. During the six months ended August 31, 2012, we made \$28.3 million investments in new or existing portfolio companies and had \$14.5 million in aggregate amount of exits and repayments resulting in net investments of \$13.8 million for the period.

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Our portfolio composition based on fair value at August 31, 2013 and February 28, 2013 was as follows:

Portfolio composition

| | At August 31, 2013 | | At February 28, 2013 | |
|---------------------------------|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
| | Percentage of Total Portfolio | Weighted Average Current Yield | Percentage of Total Portfolio | Weighted Average Current Yield |
| Middle market loans | 19.8% | 6.6% | —% | —% |
| First lien term loans | 40.2 | 10.5 | 54.0 | 10.0 |
| Second lien term loans | 8.7 | 10.1 | 6.2 | 11.1 |
| Senior secured notes | 13.0 | 14.9 | 15.0 | 14.8 |
| Unsecured notes | 2.9 | 14.9 | 3.1 | 16.4 |
| Saratoga CLO subordinated notes | 10.5 | 27.2 | 16.5 | 27.1 |
| Equity interests | 4.9 | N/A | 5.2 | N/A |
| Total | 100.0% | 12.2% | 100.0% | 14.0% |

Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at August 31, 2013 and February 28, 2013, was composed of \$331.8 million and \$383.3 million, respectively, in aggregate principal amount of predominantly senior secured first lien term loans. This investment is subject to unique risks. (See “Risk Factors—Our investment in GSC Investment Corp. CLO 2007 LTD. constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility” in our Annual Report on Form 10-K for the fiscal year ended February 28, 2013). We do not consolidate the Saratoga CLO portfolio in our financial statements. However, at August 31, 2013, \$312.2 million or 97.7% of the Saratoga CLO portfolio investments in terms of market value had a CMR (as defined below) color rating of green or yellow and two Saratoga CLO portfolio investments were in default with a fair value of \$1.2 million. At February 28, 2013, \$368.9 million or 98.5% of the Saratoga CLO portfolio investments in terms of market value had a CMR color rating of green or yellow and one Saratoga CLO portfolio investment was in default with a fair value of \$1.0 million.

Saratoga Investment Advisors normally grades all of our investments using a credit and monitoring rating system (“CMR”). The CMR consists of a single component: a color rating. The color rating is based on several criteria, including financial and operating strength, probability of default, and restructuring risk. The color ratings are characterized as follows: (Green)—strong credit; (Yellow)—satisfactory credit; (Red)—payment default risk, in payment default and/or significant restructuring activity.

The CMR distribution of our investments at August 31, 2013 and February 28, 2013 was as follows:

Portfolio CMR distribution

| Color Score | At August 31, 2013 | | At February 28, 2013 | |
|-------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| | (\$ in thousands) | | | |
| Green | \$ 140,948 | 75.1% | \$ 100,170 | 64.6% |
| Yellow | 16,334 | 8.7 | 8,143 | 5.3 |
| Red | 1,568 | 0.8 | 13,229 | 8.5 |
| N/A(1) | 28,950 | 15.4 | 33,538 | 21.6 |
| Total | \$ 187,800 | 100.0% | \$ 155,080 | 100.0% |

(1) Comprised of our investment in the subordinated notes of Saratoga CLO and equity interests.

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The CMR distribution of Saratoga CLO investments at August 31, 2013 and February 28, 2013 was as follows:

Portfolio CMR distribution

| Color Score | At August 31, 2013 | | At February 28, 2013 | |
|-------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| | (\$ in thousands) | | | |
| Green | \$ 270,296 | 84.6% | \$ 318,181 | 85.0% |
| Yellow | 41,942 | 13.1 | 50,677 | 13.5 |
| Red | 7,289 | 2.3 | 5,562 | 1.5 |
| Total | \$ 319,527 | 100.0% | \$ 374,420 | 100.0% |

Portfolio composition by industry grouping at fair value

The following table shows the portfolio composition by industry grouping at fair value at August 31, 2013 and February 28, 2013.

| | At August 31, 2013 | | At February 28, 2013 | |
|----------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| | (\$ in thousands) | | | |
| Business Services | \$ 55,840 | 29.7% | \$ 22,155 | 14.3% |
| Structured Finance Securities(1) | 19,742 | 10.5 | 25,517 | 16.5 |
| Healthcare Services | 17,856 | 9.5 | 12,400 | 8.0 |
| Food and Beverage | 17,049 | 9.1 | 18,199 | 11.7 |
| Consumer Services | 16,242 | 8.7 | 10,654 | 6.9 |
| Consumer Products | 7,957 | 4.2 | 13,727 | 8.9 |
| Automotive | 7,220 | 3.8 | 14,805 | 9.5 |
| Metals | 7,147 | 3.8 | 6,724 | 4.3 |
| Electronics | 6,832 | 3.6 | 6,721 | 4.3 |
| Software | 6,263 | 3.3 | — | — |
| Manufacturing | 5,970 | 3.2 | — | — |
| Publishing | 5,949 | 3.2 | 5,631 | 3.6 |
| Logistics | 5,000 | 2.7 | 11,181 | 7.2 |
| Environmental | 4,200 | 2.2 | 2,992 | 1.9 |
| Aerospace | 3,296 | 1.8 | 3,500 | 2.3 |
| Building Products | 470 | 0.3 | 267 | 0.2 |
| Education | 391 | 0.2 | 292 | 0.2 |
| Homebuilding | 376 | 0.2 | 315 | 0.2 |
| Total | \$ 187,800 | 100.0% | \$ 155,080 | 100.0% |

(1) Comprised of our investment in the subordinated notes of Saratoga CLO.

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The following table shows the portfolio composition by industry grouping of Saratoga CLO at fair value at August 31, 2013 and February 28, 2013.

| | At August 31, 2013 | | At February 28, 2013 | |
|---------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| | (\$ in thousands) | | | |
| Healthcare | \$ 35,562 | 11.1% | \$ 40,502 | 10.8% |
| Conglomerate | 28,144 | 8.8 | 29,888 | 8.0 |
| Business Equipment and Services | 26,493 | 8.3 | 28,300 | 7.6 |
| Chemicals/Plastics | 23,584 | 7.4 | 28,817 | 7.7 |
| Financial Intermediaries | 21,382 | 6.7 | 20,199 | 5.4 |
| Industrial Equipment | 21,094 | 6.6 | 21,864 | 5.8 |
| Aerospace and Defense | 20,371 | 6.4 | 20,914 | 5.6 |
| Drugs | 17,922 | 5.6 | 18,226 | 4.9 |
| Food Products | 17,319 | 5.4 | 21,016 | 5.6 |
| Electronics/Electric | 15,503 | 4.9 | 26,321 | 7.0 |

| | | | | |
|-----------------------------------|-------------------|---------------|-------------------|---------------|
| Retailers (Except Food and Drugs) | 15,270 | 4.8 | 19,050 | 5.1 |
| Automotive | 10,612 | 3.3 | 10,625 | 2.8 |
| Utilities | 9,613 | 3.0 | 9,932 | 2.6 |
| Leisure Goods/Activities/Movies | 8,924 | 2.9 | 8,879 | 2.4 |
| Telecommunications | 6,443 | 2.0 | 10,951 | 2.9 |
| Insurance | 5,558 | 1.7 | 6,648 | 1.8 |
| Food Services | 5,149 | 1.6 | 5,491 | 1.5 |
| Nonferrous Metals/Minerals | 4,507 | 1.4 | 5,187 | 1.4 |
| Lodging and Casinos | 3,543 | 1.1 | 7,400 | 2.0 |
| Brokers/Dealers/Investment Houses | 3,271 | 1.0 | 3,311 | 0.9 |
| Publishing | 3,171 | 1.0 | 5,657 | 1.5 |
| Telecommunications/Cellular | 3,025 | 1.0 | 3,076 | 0.8 |
| Home Furnishings | 2,928 | 0.9 | 2,984 | 0.8 |
| Cable and Satellite Television | 2,666 | 0.8 | 4,058 | 1.1 |
| Containers/Glass Products | 1,980 | 0.6 | 2,009 | 0.5 |
| Food/Drug Retailers | 1,972 | 0.6 | 4,329 | 1.1 |
| Broadcast Radio and Television | 1,003 | 0.3 | 1,010 | 0.3 |
| Steel | 988 | 0.3 | 1,001 | 0.3 |
| Clothing/Textiles | 783 | 0.3 | 861 | 0.2 |
| Ecological Services and Equipment | 747 | 0.2 | 753 | 0.2 |
| Beverage and Tobacco | — | — | 3,037 | 0.8 |
| Building and Development | — | — | 2,124 | 0.6 |
| Total | \$ 319,527 | 100.0% | \$ 374,420 | 100.0% |

Portfolio composition by geographic location at fair value

The following table shows the portfolio composition by geographic location at fair value at August 31, 2013 and February 28, 2013. The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

| | At August 31, 2013 | | At February 28, 2013 | |
|--------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| | (\$ in thousands) | | | |
| Southeast | \$ 74,637 | 39.7% | \$ 70,476 | 45.4% |
| West | 42,924 | 22.9 | 26,573 | 17.1 |
| Midwest | 27,343 | 14.6 | 18,469 | 11.9 |
| Northeast | 23,154 | 12.3 | 14,045 | 9.1 |
| Other(1) | 19,742 | 10.5 | 25,517 | 16.5 |
| Total | \$ 187,800 | 100.0% | \$ 155,080 | 100.0% |

(1) Comprised of our investment in the subordinated notes of Saratoga CLO.

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Results of operations

Operating results for the three and six months ended August 31, 2013 and 2012 are as follows:

| | For the three months ended | |
|---|----------------------------|-----------------|
| | August 31, 2013 | August 31, 2012 |
| | (\$ in thousands) | |
| Total investment income | \$ 5,388 | \$ 4,163 |
| Total expenses, net | 3,116 | 2,849 |
| Net investment income | 2,272 | 1,314 |
| Net realized gains | 546 | 269 |
| Net unrealized gains (losses) | (2,859) | 3,288 |
| Net increase (decrease) in net assets resulting from operations | \$ (41) | \$ 4,871 |
| | For the six months ended | |
| | August 31, 2013 | August 31, 2012 |
| | (\$ in thousands) | |
| Total investment income | \$ 11,406 | \$ 7,782 |
| Total expenses, net | 6,664 | 5,195 |
| Net investment income | 4,742 | 2,587 |
| Net realized gains | 1,074 | 316 |
| Net unrealized gains (losses) | (2,057) | 5,158 |
| Net increase in net assets resulting from operations | \$ 3,759 | \$ 8,061 |

Investment income

The composition of our investment income for the three and six months ended August 31, 2013 and 2012 was as follows:

| | For the three months ended | |
|--|----------------------------|-----------------|
| | August 31, 2013 | August 31, 2012 |
| | (\$ in thousands) | |
| Interest from investments | \$ 4,792 | \$ 3,514 |
| Management fee income from Saratoga CLO | 481 | 500 |
| Interest from cash and cash equivalents and other income | 115 | 149 |
| Total | \$ 5,388 | \$ 4,163 |

| | For the six months ended | |
|--|--------------------------|-----------------|
| | August 31, 2013 | August 31, 2012 |
| | (\$ in thousands) | |
| Interest from investments | \$ 9,963 | \$ 6,625 |
| Management fee income from Saratoga CLO | 979 | 1,000 |
| Interest from cash and cash equivalents and other income | 464 | 157 |
| Total | \$ 11,406 | \$ 7,782 |

For the three months ended August 31, 2013, total investment income increased \$1.2 million, or 29.4% compared to the three months ended August 31, 2012. The increase in total investment income for the three months ended August 31, 2013 versus the three months ended August 31, 2012 was the result of a higher average portfolio for the three months ended August 31, 2013.

For the six months ended August 31, 2013, total investment income increased \$3.6 million, or 46.6% compared to the six months ended August 31, 2012. The increase in total investment income for the six months ended August 31, 2013 versus the six months ended August 31, 2012 was the result of a higher average portfolio for the three and six months ended August 31, 2013.

For the three and six months ended August 31, 2013 and 2012, total PIK income was \$0.3 million and \$0.5 million, and \$0.2 million and \$0.5 million, respectively.

The reinvestment period for Saratoga CLO ended in January 2013. As a result, proceeds from principal payments in the loan portfolio of Saratoga CLO must now be used to paydown its outstanding notes. Thus, the management fee income and investment income that we will receive from Saratoga CLO will decline in future periods.

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Operating expenses

The composition of our expenses for the three and six months ended August 31, 2013 and 2012 was as follows:

Operating Expenses

| | For the three months ended | |
|---|----------------------------|-----------------|
| | August 31, 2013 | August 31, 2012 |
| | (\$ in thousands) | |
| Interest and debt financing expenses | \$ 1,604 | \$ 653 |
| Base management fees | 811 | 505 |
| Professional fees | 235 | 294 |
| Incentive management fees | (40) | 869 |
| Administrator expenses | 250 | 250 |
| Insurance expenses | 119 | 130 |
| Directors fees | 45 | 51 |
| General and administrative and other expenses | 92 | 97 |
| Total expenses | \$ 3,116 | \$ 2,849 |

| | For the six months ended | |
|---|--------------------------|-----------------|
| | August 31, 2013 | August 31, 2012 |
| | (\$ in thousands) | |
| Interest and debt financing expenses | \$ 2,731 | \$ 1,299 |
| Base management fees | 1,548 | 963 |
| Professional fees | 566 | 639 |
| Incentive management fees | 781 | 1,300 |
| Administrator expenses | 500 | 500 |
| Insurance expenses | 239 | 261 |
| Directors fees | 96 | 102 |
| General and administrative and other expenses | 203 | 151 |
| Total expenses | \$ 6,664 | \$ 5,195 |

For the three months ended August 31, 2013, total expenses increased \$0.3 million, or 9.4%, compared to the three months ended August 31, 2012. For the six months ended August 31, 2013, total expenses increased \$1.5 million, or 28.3%, compared to the six months ended August 31, 2012. The increase is primarily related an increase in interest and credit facility expense, base management fees and incentive management fees due to the growth in our portfolio and amount of our outstanding debt.

As discussed above, the increase in interest and debt financing expenses for the three and six months ended August 31, 2013 is primarily attributable to an increase in the amount of outstanding debt as compared to the prior periods. For the six months ended August 31, 2013 and 2012, the weighted average

interest rate on the outstanding borrowings under the Replacement Facility was 7.50% and 7.50%, respectively. The weighted average interest rate during the six months ended August 31, 2013 on the outstanding borrowings of the SBA debentures was 2.90%. The weighted average interest rate during the six months ended August 31, 2013 on the Notes was 7.50%.

Net realized gains/losses on sales of investments

For the three months ended August 31, 2013, the Company had \$29.6 million of sales, repayments, exits or restructurings resulting in \$0.5 million of net realized gains.

For the six months ended August 31, 2013, the Company had \$54.9 million of sales, repayments, exits or restructurings resulting in \$1.0 million of net realized gains.

For the three months ended August 31, 2012, we had \$10.0 million of sales, repayments, exits and restructurings, resulting in \$0.3 million of net realized gains.

For the six months ended August 31, 2012, we had \$14.5 million of sales, repayments, exits and restructurings, resulting in \$0.4 million of net realized gains.

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Net unrealized appreciation/depreciation on investments

For the three months ended August 31, 2013, our investments had an increase in net unrealized depreciation of \$2.9 million versus an increase in net unrealized appreciation of \$3.3 million for the three months ended August 31, 2012. For the six months ended August 31, 2013, our investments had an increase in net unrealized depreciation of \$2.1 million versus an increase in net unrealized appreciation of \$5.0 million for the six months ended August 31, 2012. The most significant cumulative changes in unrealized appreciation and depreciation for the six months ended August 31, 2013, were the following:

Six months ended August 31, 2013

| <u>Issuer</u> | <u>Asset Type</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Total Unrealized Appreciation/ (Depreciation)</u> | <u>YTD Change in Unrealized Appreciation/ (Depreciation)</u> |
|-----------------------------|--------------------------------------|-------------|-------------------|--|--|
| (\$ in thousands) | | | | | |
| Elyria Foundry Company, LLC | Senior Secured Note | \$ 8,860 | \$ 7,147 | \$ (1,713) | \$ (1,713) |
| Saratoga CLO | Other/ Structured Finance Securities | 16,805 | 19,742 | 2,937 | (3,635) |
| USS Parent Holding Corp. | Voting Common Stock | 3,026 | 4,023 | 997 | 1,157 |

The \$1.7 million of unrealized depreciation in our investment in Elyria Foundry Company, LLC was due to lower operating performance as a result of weaker oil and gas demand.

The \$3.6 million of unrealized depreciation in our investment in the Saratoga CLO subordinated notes was due to lower net present value of projected future cash flows partially offset by a reduction in the investment basis of the subordinated notes.

The \$1.2 million of unrealized appreciation in our investment in the common stock of USS Parent Holding Corp. was due to improved operating performance.

The most significant cumulative changes in unrealized appreciation for the six months ended August 31, 2012 were the following:

Six months ended August 31, 2012

| <u>Issuer</u> | <u>Asset Type</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Total Unrealized Appreciation</u> | <u>YTD Change in Unrealized Appreciation/ (Depreciation)</u> |
|----------------------------------|-------------------------------------|-------------|-------------------|--------------------------------------|--|
| (\$ in thousands) | | | | | |
| Targus Holdings, Inc. | Common Stock | \$ 567 | \$ 4,594 | \$ 4,027 | \$ 1,918 |
| Worldwide Express Operations LLC | First Lien Term Loan | 6,397 | 6,441 | 44 | 353 |
| Saratoga CLO | Other/Structured Finance Securities | 21,568 | 27,099 | 5,531 | 3,225 |

The \$2.0 million of unrealized appreciation on our investment in Targus Holdings, Inc. resulted from its improved operating performance and improved trading multiples of comparable publicly traded companies. In addition, the \$0.4 million of unrealized appreciation on our investment in Worldwide Express Operations, LLC resulted from its improved operating performance.

The \$3.2 million net unrealized appreciation in our investment in the Saratoga CLO subordinated notes was due to higher cash flow projections (based on an improvement in the overall portfolio, a decrease in the assumed portfolio default rate and an improvement in reinvestment assumptions based on current market conditions and projections) offset by a higher discount rate used to present value the cash flows based on current market conditions.

Changes in net assets resulting from operations

For the three months ended August 31, 2013, we recorded a net decrease in net assets resulting from operations of \$0.04 million versus a net increase in net assets resulting from operations of \$4.9 million for the three months ended August 31, 2012. Based on 4,730,116 and 3,876,661 weighted average common shares outstanding for the three months ended August 31, 2013 and August 31, 2012, respectively, our per share net decrease in net assets resulting

from operations was (\$0.01) for the three months ended August 31, 2013 versus a per share net increase in net assets from operations of \$1.26 for the three months ended August 31, 2012.

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For the six months ended August 31, 2013, we recorded a net increase in net assets resulting from operations of \$3.8 million versus a net increase in net assets resulting from operations of \$8.1 million or the six months ended August 31, 2012. Based on 4,730,116 and 3,876,661 weighted average common shares outstanding for the six months ended August 31, 2013 and August 31, 2012, respectively, our per share net increase in net assets resulting from operations was \$0.79 for the six months ended August 31, 2013 versus a per share net increase in net assets from operations of \$2.08 for the six months ended August 31, 2012.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We intend to continue to generate cash primarily from cash flows from operations, including interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less, future borrowings and future offerings of securities.

Although we expect to fund the growth of our investment portfolio through the net proceeds from future equity offerings, including our dividend reinvestment plan, and issuances of senior securities or future borrowings, to the extent permitted by the 1940 Act, we cannot assure you that our plans to raise capital will be successful. In this regard, because our common stock has historically traded at a price below our current net asset value per share and we are limited in our ability to sell our common stock at a price below net asset value per share, we have been and may continue to be limited in our ability to raise equity capital. Our stockholders approved a proposal at our annual meeting of stockholders held on September 26, 2013 that authorizes us to sell shares of our common stock at an offering price per share to investors that is not less than 85% of our then current net asset value per share in one or more offerings for a period ending on the earlier of September 26, 2014 or the date of our next annual meeting of stockholders. We would need stockholder approval of a similar proposal to issue shares below net asset value per share at any time after the earlier of September 26, 2014 or our next annual meeting of stockholders.

In addition, we intend to distribute to our stockholders substantially all of our taxable income in order to satisfy the distribution requirement applicable to RICs under Subchapter M of the Code. In satisfying this distribution requirement, we have in the past relied on IRS issued private letter rulings concluding that a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all stockholders, which limitation must be at least 20% of the aggregate declared distribution. We may rely on these IRS private letter rulings in future periods to satisfy our RIC distribution requirement.

Also, as a BDC, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. Our asset coverage ratio, as defined in the 1940 Act, was 332.8% as of August 31, 2013 and 547.3% as of February 28, 2013. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and other debt-related markets, which may or may not be available on favorable terms, if at all.

Consequently, we may not have the funds or the ability to fund new investments, to make additional investments in our portfolio companies, to fund our unfunded commitments to portfolio companies or to repay borrowings. Also, the illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

Below is a summary of the terms of the senior secured revolving credit facility we entered into with Madison Capital Funding (the "Replacement Facility") on June 30, 2010.

Availability. The Company can draw up to the lesser of (i) \$40.0 million (the "Facility Amount") and (ii) the product of the applicable advance rate (which varies from 50.0% to 75.0% depending on the type of loan asset) and the value, determined in accordance with the Replacement Facility (the "Adjusted Borrowing Value"), of certain "eligible" loan assets pledged as security for the loan (the "Borrowing Base"), in each case less (a) the amount of any undrawn funding commitments the Company has under any loan asset and which are not covered by amounts in the Unfunded Exposure Account referred to below (the "Unfunded Exposure Amount") and (b) outstanding borrowings. Each loan asset held by the Company as of the date on which the Replacement Facility was closed was valued as of that date and each loan asset that the Company acquires after such date will be valued at the lowest of its fair value, its face value (excluding accrued interest) and the purchase price paid for such loan asset. Adjustments to the value of a loan asset will be made to reflect, among other things, changes in its fair value, a default by the obligor on the loan asset, insolvency of the obligor, acceleration of the loan asset, and certain modifications to the terms of the loan asset.

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The Replacement Facility contains limitations on the type of loan assets that are "eligible" to be included in the Borrowing Base and as to the concentration level of certain categories of loan assets in the Borrowing Base such as restrictions on geographic and industry concentrations, asset size and quality, payment frequency, status and terms, average life, and collateral interests. In addition, if an asset is to remain an "eligible" loan asset, the Company may not make changes to the payment, amortization, collateral and certain other terms of the loan assets without the consent of the administrative agent that will either result in subordination of the loan asset or be materially adverse to the lenders.

Collateral. The Replacement Facility is secured by substantially all of the assets of the Company (other than assets held by our SBIC subsidiary) and includes the subordinated notes ("CLO Notes") issued by Saratoga CLO and the Company's rights under the CLO Management Agreement (as defined below).

Interest Rate and Fees. Under the Replacement Facility, funds are borrowed from or through certain lenders at the greater of the prevailing LIBOR rate and 2.00%, plus an applicable margin of 5.50%. At the Company's option, funds may be borrowed based on an alternative base rate, which in no event will be less than 3.00%, and the applicable margin over such alternative base rate is 4.50%. In addition, the Company pays the lenders a commitment fee of

0.75% per year on the unused amount of the Replacement Facility for the duration of the Revolving Period (defined below). Accrued interest and commitment fees are payable monthly. The Company was also obligated to pay certain other fees to the lenders in connection with the closing of the Replacement Facility.

Revolving Period and Maturity Date. The Company may make and repay borrowings under the Replacement Facility for a period of three years following the closing of the Replacement Facility (the “Revolving Period”). The Revolving Period may be terminated at an earlier time by the Company or, upon the occurrence of an event of default, by action of the lenders or automatically. All borrowings and other amounts payable under the Replacement Facility are due and payable in full five years after the end of the Revolving Period.

Collateral Tests. It is a condition precedent to any borrowing under the Replacement Facility that the principal amount outstanding under the Replacement Facility, after giving effect to the proposed borrowings, not exceed the lesser of the Borrowing Base or the Facility Amount (the “Borrowing Base Test”). In addition to satisfying the Borrowing Base Test, the following tests must also be satisfied (together with Borrowing Base Test, the “Collateral Tests”):

- *Interest Coverage Ratio.* The ratio (expressed as a percentage) of interest collections with respect to pledged loan assets, less certain fees and expenses relating to the Replacement Facility, to accrued interest and commitment fees and any breakage costs payable to the lenders under the Replacement Facility for the last 6 payment periods must equal at least 175.0%.
- *Overcollateralization Ratio.* The ratio (expressed as a percentage) of the aggregate Adjusted Borrowing Value of “eligible” pledged loan assets plus the fair value of certain ineligible pledged loan assets and the CLO Notes (in each case, subject to certain adjustments) to outstanding borrowings under the Replacement Facility plus the Unfunded Exposure Amount must equal at least 200.0%.
- *Weighted Average FMV Test.* The aggregate adjusted or weighted value of “eligible” pledged loan assets as a percentage of the aggregate outstanding principal balance of “eligible” pledged loan assets must be equal to or greater than 72.0% and 80.0% during the one-year periods prior to the first and second anniversary of the closing date, respectively, and 85.0% at all times thereafter.

The Replacement Facility also requires payment of outstanding borrowings or replacement of pledged loan assets upon the Company’s breach of its representation and warranty that pledged loan assets included in the Borrowing Base are “eligible” loan assets. Such payments or replacements must equal the lower of the amount by which the Borrowing Base is overstated as a result of such breach or any deficiency under the Collateral Tests at the time of repayment or replacement. Compliance with the Collateral Tests is also a condition to the discretionary sale of pledged loan assets by the Company.

Priority of Payments. During the Revolving Period, the priority of payments provisions of the Replacement Facility require, after payment of specified fees and expenses and any necessary funding of the Unfunded Exposure Account, that collections of principal from the loan assets and, to the extent that these are insufficient, collections of interest from the loan assets, be applied on each payment date to payment of outstanding borrowings if the Borrowing Base Test, the Overcollateralization Ratio and the Interest Coverage Ratio would not otherwise be met. Similarly, following termination of the Revolving Period, collections of interest are required to be applied, after payment of certain fees and expenses, to cure any deficiencies in the Borrowing Base Test, the Interest Coverage Ratio and the Overcollateralization Ratio as of the relevant payment date.

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Reserve Account. The Replacement Facility requires the Company to set aside an amount equal to the sum of accrued interest, commitment fees and administrative agent fees due and payable on the next succeeding three payment dates (or corresponding to three payment periods). If for any monthly period during which fees and other payments accrue, the aggregate Adjusted Borrowing Value of “eligible” pledged loan assets which do not pay cash interest at least quarterly exceeds 15.0% of the aggregate Adjusted Borrowing Value of “eligible” pledged loan assets, the Company is required to set aside such interest and fees due and payable on the next succeeding six payment dates. Amounts in the reserve account can be applied solely to the payment of administrative agent fees, commitment fees, accrued and unpaid interest and any breakage costs payable to the lenders.

Unfunded Exposure Account. With respect to revolver or delayed draw loan assets, the Company is required to set aside in a designated account (the “Unfunded Exposure Account”) 100.0% of its outstanding and undrawn funding commitments with respect to such loan assets. The Unfunded Exposure Account is funded at the time the Company acquires a revolver or delayed draw loan asset and requests a related borrowing under the Replacement Facility. The Unfunded Exposure Account is funded through a combination of proceeds of the requested borrowing and other Company funds, and if for any reason such amounts are insufficient, through application of the priority of payment provisions described above.

Operating Expenses. The priority of payments provision of the Replacement Facility provides for the payment of certain operating expenses of the Company out of collections on principal and interest during the Revolving Period and out of collections on interest following the termination of the Revolving Period in accordance with the priority established in such provision. The operating expenses payable pursuant to the priority of payment provisions is limited to \$350,000 for each monthly payment date or \$2.5 million for the immediately preceding period of twelve consecutive monthly payment dates. This ceiling can be increased by the lesser of 5.0% or the percentage increase in the fair market value of all the Company’s assets only on the first monthly payment date to occur after each one-year anniversary following the closing of the Replacement Facility. Upon the occurrence of a Manager Event (described below), the consent of the administrative agent is required in order to pay operating expenses through the priority of payments provision.

Events of Default. The Replacement Facility contains certain negative covenants, customary representations and warranties and affirmative covenants and events of default. The Replacement Facility does not contain grace periods for breach by the Company of certain covenants, including, without limitation, preservation of existence, negative pledge, change of name or jurisdiction and separate legal entity status of the Company covenants and certain other customary covenants. Other events of default under the Replacement Facility include, among other things, the following:

- an Interest Coverage Ratio of less than 150.0%;
- an Overcollateralization Ratio of less than 175.0%;
- the filing of certain ERISA or tax liens;
- the occurrence of certain “Manager Events” such as:

- failure by Saratoga Investment Advisors and its affiliates to maintain collectively, directly or indirectly, a cash equity investment in the Company in an amount equal to at least \$5,000,000 at any time prior to the third anniversary of the closing date;
- failure of the management agreement between Saratoga Investment Advisors and the Company to be in full force and effect;
- indictment or conviction of Saratoga Investment Advisors or any “key person” for a felony offense, or any fraud, embezzlement or misappropriation of funds by Saratoga Investment Advisors or any “key person” and, in the case of “key persons,” without a reputable, experienced individual reasonably satisfactory to Madison Capital Funding appointed to replace such key person within 30 days;
- resignation, termination, disability or death of a “key person” or failure of any “key person” to provide active participation in Saratoga Investment Advisors’ daily activities, all without a reputable, experienced individual reasonably satisfactory to Madison Capital Funding appointed within 30 days; or
- occurrence of any event constituting “cause” under the Collateral Management Agreement between the Company and Saratoga CLO (the “CLO Management Agreement”), delivery of a notice under Section 12(c) of

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the CLO Management Agreement with respect to the removal of the Company as collateral manager or the Company ceases to act as collateral manager under the CLO Management Agreement.

Conditions to Acquisitions and Pledges of Loan Assets. The Replacement Facility imposes certain additional conditions to the acquisition and pledge of additional loan assets. Among other things, the Company may not acquire additional loan assets without the prior written consent of the administrative agent until such time that the administrative agent indicates in writing its satisfaction with Saratoga Investment Advisors’ policies, personnel and processes relating to the loan assets.

Fees and Expenses. The Company paid certain fees and reimbursed Madison Capital Funding for the aggregate amount of all documented, out-of-pocket costs and expenses, including the reasonable fees and expenses of lawyers, incurred by Madison Capital Funding in connection with the Replacement Facility and the carrying out of any and all acts contemplated thereunder up to and as of the date of closing of the stock purchase transaction with Saratoga Investment Advisors and certain of its affiliates. These amounts totaled \$2.0 million.

On February 24, 2012, we amended our senior secured revolving credit facility with Madison Capital Funding LLC to, among other things:

- expand the borrowing capacity under the credit facility from \$40.0 million to \$45.0 million;
- extend the Revolving Period from July 30, 2013 to February 24, 2015; and
- remove the condition that we may not acquire additional loan assets without the prior written consent of the administrative agent.

As of August 31, 2013, we had no outstanding balance under the Replacement Facility and our borrowing base under the Replacement Facility was \$51.1 million.

Our asset coverage ratio, as defined in the 1940 Act, was 332.8% as of August 31, 2013 and 547.3% as of February 28, 2013.

In addition, we, through a wholly-owned subsidiary, sought and obtained a license from the SBA to operate an SBIC. In this regard, on March 28, 2012, our wholly-owned subsidiary, Saratoga Investment Corp. SBIC, LP, received a license from the SBA to operate as an SBIC under Section 301(c) of the Small Business Investment Act of 1958. SBICs are designated to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses.

The SBIC license allows our SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

SBA regulations currently limit the amount that our SBIC subsidiary may borrow to a maximum of \$150 million when it has at least \$75 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing. As of August 31, 2013, our SBIC subsidiary had \$25 million in regulatory capital and \$40.0 million SBA-guaranteed debentures outstanding.

We received exemptive relief from the Securities and Exchange Commission to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the 200% asset coverage test under the 1940 Act. This allows us increased flexibility under the 200% asset coverage test by permitting us to borrow up to \$150 million more than we would otherwise be able to absent the receipt of this exemptive relief.

In May 2013, we issued \$48.3 million in aggregate principal amount of our 7.50% unsecured notes due 2020 for net proceeds of \$46.1 million after deducting underwriting commissions of \$1.9 million and offering costs of \$0.3 million. The proceeds included the underwriters’ full exercise of their overallotment option. Interest on these notes is paid quarterly in arrears on February 15, May 15, August 15 and November 15, at a rate of 7.5% per year, beginning August 15, 2013. The notes mature on May 31, 2020 and may be redeemed in whole or in part at any time or from time to time at our option on or after May 31, 2016. In connection with the issuance of the notes, we agreed to the following covenants for the period of time during which the notes are outstanding:

- we will not violate (whether or not we are subject to) Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, but giving effect to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings.
- we will not violate (regardless of whether we are subject to) Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, but giving effect to (i) any exemptive relief granted to us by the SEC and (ii) no-action relief granted by the SEC to another BDC (or to the Company if it determines to seek such similar no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act in order to maintain the BDC's status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986. Currently these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase.

The notes are listed on the NYSE under the trading symbol "SAQ" with a par value of \$25.00 per share.

Contractual obligations

The following table shows our payment obligations for repayment of debt and other contractual obligations at August 31, 2013:

| | Total (\$ in thousands) | Payment Due by Period | | | |
|----------------------------|----------------------------|-----------------------|----------------|----------------|----------------------|
| | | Less Than 1 Year | 1 - 3 Years | 3 - 5 Years | More Than 5 Years |
| Long-Term Debt Obligations | \$ 88,300 | \$ — | \$ — | \$ — | \$ 88,300 |

Off-balance sheet arrangements

At August 31, 2013 and February 28, 2013, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Recent Developments

On October 1, 2013, the Saratoga CLO priced a refinancing of its notes. The refinanced Saratoga CLO has assets of \$300 million and will have a reinvestment period through October 2016. As a result of increased pricing on the notes and the smaller asset base, interest income and equity distributions in the future will be lower historical amounts. Saratoga Investment Corp. will continue to own 100% of the subordinated notes and receive a 50 basis point management fee for the life of the Saratoga CLO. The refinancing is expected to close on October 17, 2013.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our market risks have not changed materially from the risks reported in our Form 10-K for the year ended February 28, 2013.

Item 4. Controls and Procedures

- As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, our chief executive officer and our chief financial officer have concluded that our current disclosure controls and procedures are effective in facilitating timely decisions regarding required disclosure of any material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.
- There have been no changes in our internal control over financial reporting that occurred during the quarter ended August 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On August 31, 2012, a complaint was filed in the United States Bankruptcy Court for the Southern District of New York by GSC Acquisition Holdings, LLC against us to recover, among other things, approximately \$2.6 million for the benefit of the estates and the general unsecured creditors of GSC Group, Inc. and its affiliates, including the Company's former investment adviser, GSCP (NJ), L.P. The complaint alleges that the former investment adviser made a constructively fraudulent transfer of \$2.6 million in deferred incentive fees by waiving them in connection with the termination of an investment advisory and management agreement with us, and that the termination of the investment advisory and management agreement was itself a fraudulent transfer. These transfers, the complaint alleges, were made without receipt of reasonably equivalent value and while the former investment adviser was insolvent. The complaint has not yet been served, and the plaintiff's motion for authority to prosecute the case on behalf of the estates was taken under advisement by the court on October 1, 2012. We opposed that motion. We believe that the claims in this lawsuit are without merit and, if the plaintiff is authorized to proceed, intend to vigorously defend against this action.

Except as discussed above, neither we nor our wholly-owned subsidiaries, Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP, are currently subject to any material legal proceedings.

Item 1A. Risk Factors

Other than as set forth below, there have been no material changes from the risk factors set forth in our annual report on Form 10-K for the year ended February 28, 2013.

Our independent auditors have not assessed our internal control over financial reporting. If our internal control over financial reporting is not effective, it could have a material adverse effect on our stock price and our ability to raise capital.

Because we are a “non-accelerated filer” within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934, our independent auditors are not required to assess our internal control over financial reporting or to provide a report thereon. Although our management determined that our internal control over financial reporting was effective at February 28, 2013 (the last dated that such determination was required to be made by us), there can be no assurance that our independent auditors would agree with our management’s conclusion. Furthermore, if our market capitalization, excluding affiliated stockholders, at August 31 of any fiscal year is greater than \$75 million, then we will be required to obtain independent auditor certification on the adequacy of our internal control over financial reporting for that fiscal year. If our internal control over financial reporting is determined in the future to not be effective, whether by our management or by our independent auditors, there could be an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements, which could materially adversely affect our stock price and our ability to raise capital necessary to operate our business. In addition, we may be required to incur costs in improving our internal control system and hiring additional personnel.

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

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Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Listed below are the exhibits which are filed as part of this report (according to the number assigned to them in Item 601 of Regulation S-K):

| <u>Exhibit Number</u> | <u>Description of Document</u> |
|-----------------------|---|
| 31.1* | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 |
| 31.2* | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 |
| 32.1* | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) |
| 32.2* | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) |

* Submitted herewith.

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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.

SARATOGA INVESTMENT CORP.

Date: October 15, 2013

By /s/ Christian L. Oberbeck
Christian L. Oberbeck
Chief Executive Officer

By /s/ Richard A. Petrocelli
Richard A. Petrocelli
Chief Financial Officer, Chief Compliance Officer and Secretary

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

I, Christian L. Oberbeck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Saratoga 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the 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 15, 2013

/s/ CHRISTIAN L. OBERBECK

Christian L. Oberbeck

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 A. Petrocelli, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Saratoga 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the 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 15, 2013

/s/ RICHARD A. PETROCELLI

Name: Richard A. Petrocelli

Chief Financial Officer, Chief Compliance Officer and Secretary

**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 Saratoga 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.

Christian L. Oberbeck, the Chief Executive Officer, 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 Saratoga Investment Corp.

Date: October 15, 2013

/s/ CHRISTIAN L. OBERBECK

Name: Christian L. Oberbeck

Chief Executive 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 Saratoga 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.

Richard A. Petrocelli, the Chief Financial Officer, Chief Compliance Officer and Secretary of Saratoga Investment Corp., 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 Saratoga Investment Corp.

Date: October 15, 2013

/s/ RICHARD A. PETROCELLI

Name: Richard A. Petrocelli

Chief Financial Officer, Chief Compliance Officer and Secretary
