



October 12, 2011

Saratoga Investment Corp. Announces Fiscal Second Quarter 2012 Financial Results

NEW YORK, Oct. 12, 2011 /PRNewswire/ -- Saratoga Investment Corp. (NYSE: SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2012 fiscal second quarter.

Operating Results

For the fiscal quarter ended August 31, 2011, Saratoga Investment reported net investment income of \$2.7 million or \$0.83 per share, and net loss on investments of \$4.4 million, or \$1.36 per share, resulting in a decrease in net assets from operations of \$1.7 million, or \$0.53 per share. Net investment income was positively impacted by the reversal of \$1.1 million in capital gain incentive management fee expense as a result of the net unrealized depreciation on investments for the quarter. The \$4.4 million loss on investments was mostly due to a \$3.1 million loss primarily attributable to a single legacy second lien investment in a contract research organization. A recent FDA finding may require the company to re-run certain historical studies at a cost currently estimated to significantly impair the junior classes of capital.

Net asset value was \$90.0 million as of August 31, 2011, compared to \$91.8 million as of May 31, 2011 and \$86.1 million as of February 28, 2011. Net asset value per share was \$27.48 as of August 31, 2011 and \$28.01 as of May 31, 2011 and \$26.26 as of February 28, 2011.

Christian L. Oberbeck, Chairman, Chief Executive Officer and President of Saratoga Investment, said, "We continued to move forward on a number of areas during the second quarter despite the headwinds from a difficult market environment. First, the U.S. Small Business Administration (SBA) issued a 'green light' or 'go forth' letter inviting Saratoga to continue its application process to obtain a license to form and operate a Small Business Investment Company (SBIC) subsidiary. An SBIC license would permit Saratoga to issue SBA-guaranteed debentures, which carry long-term fixed rates that are generally lower than rates on comparable bank debt and other debt. We also strengthened our team with the appointment of Michael J. Grisius as Managing Director and Chief Investment Officer of Saratoga Investment Advisors, and his election to the Board of Directors of SAR. Michael brings specific expertise and success in middle market investing from his 16 years at Allied Capital."

Portfolio and Investment Activity

As of August 31, 2011, the fair value of Saratoga Investment's investment portfolio was \$86.2 million, principally invested in 22 portfolio companies and one collateralized loan obligation fund (the "CLO"). The overall portfolio composition consisted of 32.8% of first lien term loans, 18.4% of second lien term loans, 11.3% of senior secured notes, 2.4% of unsecured notes, 29.5% of subordinated notes of the CLO and 5.6% of common equity.

During the 2012 fiscal second quarter, Saratoga Investment invested \$2.9 million in new or existing portfolio companies and had \$6.5 million in aggregate amount of exits and repayments on its investments, resulting in net repayments of \$3.6 million in aggregate amount for the quarter.

As of August 31, 2011, the weighted average current yield on Saratoga Investment's first lien term loans, second lien term loans, senior secured notes, unsecured notes and the CLO subordinated notes were 9.9%, 9.4%, 16.3%, 18.2%, and 18.2%, respectively, which resulted in an aggregate weighted average current yield of 13.6%.

Liquidity and Capital Resources

As of August 31, 2011, Saratoga Investment had an aggregate of \$2.9 million in cash and cash equivalents. Saratoga Investment had no outstanding borrowings and approximately \$40.0 million of available liquidity to fund investments as of August 31, 2011.

Dividend

Given the size of Saratoga Investment's asset base and its growing pipeline of attractive investments, the Company's board of directors believes that using capital resources to build and diversify the portfolio best serves stockholders' interests by positioning the Company to generate current income and capital appreciation on an increasing scale in future periods. Therefore, the Company's board of directors has determined not to pay any dividends at this time.

2012 Fiscal Second Quarter Conference Call/Webcast Information

When: Oct. 12, 2011 at 9:30 a.m. Eastern Time (ET)

Call: Interested parties may participate by dialing (877) 312-9208 (U.S. and Canada) or (678) 224-7872 (outside U.S. and Canada).

A replay of the call will be available from 12:30 p.m. ET on Oct. 12, 2011 through 11:59 p.m. ET on Oct. 19, 2011 by dialing (855) 859-2056 (U.S. and Canada) or (404) 537-3406 (outside U.S. and Canada), passcode for both replay numbers: 17833942.

Webcast: Interested parties may also access a simultaneous webcast of the call by going to <http://ir.saratogainvestmentcorp.com/events.cfm>.

About Saratoga Investment Corp.

Saratoga Investment Corp. is a specialty finance company that provides customized financing solutions to U.S. middle-market businesses. The Company invests primarily in mezzanine debt, leveraged loans and, to a lesser extent, equity. Saratoga Investment Corp.'s investment objective is to create attractive risk-adjusted returns by generating current income from its debt investments and capital appreciation from its equity investments. The Company partners with business owners, management teams and financial sponsors to provide financing for change of ownership transactions, strategic acquisitions, recapitalizations and growth initiatives. It has elected to be regulated as a business development company under the Investment Company Act of 1940.

About Saratoga Investment Advisors

Saratoga Investment Advisors, LLC is a New York-based investment firm formed to focus on credit-driven strategies. It is the external investment adviser to Saratoga Investment Corp. and is affiliated with Saratoga Partners, a middle-market private equity investment firm that primarily invests in businesses with strong management teams and valuations of between \$50 million and \$500 million. Saratoga Partners' investment strategy focuses on companies in manufacturing and business services and it has significant experience in special situations and distressed investing.

Since Saratoga Partners was founded in 1984 as a division of the New York investment firm Dillon, Read & Co., Inc., it has invested in 35 companies with an aggregate value of more than \$3.7 billion. It has been an independent firm since its spinoff in 1998 after Dillon Read was acquired by Swiss Bank Corporation (a predecessor to UBS AG).

Forward-Looking Statements

This press release may contain certain forward-looking statements, including statements with regard to the future performance of Saratoga Investment Corp. Words such as "believes," "expects," "projects," "anticipates," and "future" or similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ materially from those projected in these forward-looking statements, and these factors are identified from time to time in Saratoga Investment Corp.'s filings with the Securities and Exchange Commission. Saratoga Investment Corp. undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Financial Statements

Saratoga Investment Corp.

Consolidated Statements of Assets and Liabilities

	As of	
	<u>August 31, 2011</u>	<u>February 28, 2011</u>
	(unaudited)	
ASSETS		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$81,536,547 and \$73,779,271, respectively)	60,827,981	\$ 57,292,723
Control investments (cost of \$25,093,624 and \$27,364,350, respectively)	25,388,994	22,732,038
Total investments at fair value (amortized cost of \$106,630,171 and \$101,143,621, respectively)	86,216,975	80,024,761
Cash and cash equivalents	512,592	10,735,755
Cash and cash equivalents, securitization accounts	2,376,331	4,369,987
Outstanding interest rate cap at fair value (cost of \$131,000 and \$131,000, respectively)	991	16,265
Interest receivable, (net of reserve of \$249,520 and \$14,796, respectively)	1,633,060	1,666,083

Deferred credit facility financing costs, net	1,297,280	1,638,768
Management fee receivable	229,649	231,753
Other assets	181,384	85,166
Total assets	<u>\$ 92,448,262</u>	<u>\$ 98,768,538</u>
LIABILITIES		
Revolving credit facility	\$ -	\$ 4,500,000
Payable for unsettled trades	-	4,900,000
Management and incentive fees payable	1,329,733	2,203,806
Accounts payable and accrued expenses	498,905	785,486
Interest and credit facility fees payable	46,667	67,792
Due to manager	520,198	240,000
Total liabilities	<u>\$ 2,395,503</u>	<u>\$ 12,697,084</u>
NET ASSETS		
Common stock, par value \$.001, 100,000,000 common shares authorized, 3,277,077 and 3,277,077 common shares issued and outstanding, respectively	\$ 3,277	\$ 3,277
Capital in excess of par value	153,768,680	153,768,680
Distribution in excess of net investment income	(5,620,017)	(8,918,890)
Accumulated net realized loss from investments and derivatives	(37,555,975)	(37,548,016)
Net unrealized depreciation on investments and derivatives	(20,543,206)	(21,233,597)
Total Net Assets	<u>90,052,759</u>	<u>86,071,454</u>
Total liabilities and Net Assets	<u>\$ 92,448,262</u>	<u>\$ 98,768,538</u>
NET ASSET VALUE PER SHARE	<u>\$ 27.48</u>	<u>\$ 26.26</u>

Saratoga Investment Corp.

Consolidated Statements of Operations

	For three months ended August 31		For six months ended August 31	
	2011 (unaudited)	2010 (unaudited)	2011 (unaudited)	2010 (unaudited)
INVESTMENT INCOME				
Interest from investments				
Non-control/Non-affiliate investments	\$ 1,836,643	\$ 1,749,678	\$ 3,334,532	\$ 3,366,945
Control investments	1,050,486	816,802	1,940,063	1,469,522
Total interest income	2,887,129	2,566,480	5,274,595	4,836,467
Interest from cash and cash equivalents	1,100	863	5,248	1,182
Management fee income	503,803	508,071	1,010,171	1,014,856
Other income	145,908	37,633	145,908	71,192
Total investment income	<u>3,537,940</u>	<u>3,113,047</u>	<u>6,435,922</u>	<u>5,923,697</u>
EXPENSES				
Interest and credit facility financing expenses	309,911	738,147	679,821	1,569,268
Base management fees	411,468	423,442	809,932	834,831
Professional fees	632,237	1,614,588	925,865	2,757,125
Administrator expenses	240,000	173,425	480,000	328,562
Incentive management fees	(1,058,378)	-	(336,653)	-
Insurance	146,699	171,596	303,681	366,250
Directors fees and expenses	51,000	108,233	102,000	272,844
General & administrative	82,859	141,461	169,213	205,597
Other expense	1,880	-	3,190	-
Expenses before expense waiver and reimbursement	<u>817,676</u>	<u>3,370,892</u>	<u>3,137,049</u>	<u>6,334,477</u>
Expense reimbursement	-	(103,425)	-	(258,562)
Waiver of deferred incentive management fees		(2,636,146)		(2,636,146)
Total expenses net of expense waiver and reimbursement	<u>817,676</u>	<u>631,321</u>	<u>3,137,049</u>	<u>3,439,769</u>
NET INVESTMENT INCOME	<u>2,720,264</u>	<u>2,481,726</u>	<u>3,298,873</u>	<u>2,483,928</u>

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:

Net realized gain/(loss) from investments	(105,967)	2,147	(7,959)	(2,549,263)
Net unrealized appreciation/(depreciation) on investments	(4,337,470)	4,214,508	705,665	9,438,323
Net unrealized appreciation/(depreciation) on derivatives	(4,732)	1,438	(15,274)	(18,431)
Net gain/(loss) on investments	<u>(4,448,169)</u>	<u>4,218,093</u>	<u>682,432</u>	<u>6,870,629</u>

NET INCREASE/(DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS \$ (1,727,905) \$ 6,699,819 \$ 3,981,305 \$ 9,354,557

WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE\$ (0.53) \$ 3.27 \$ 1.22 \$ 5.00

WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED 3,277,077 2,047,985 3,277,077 1,870,998

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